

AR02

THE ROYAL BANK OF CANADA  
ANNUAL STATEMENT 1989



VOUE ROYALE  
ADA



## FINANCIAL HIGHLIGHTS

|                                                            | 1989      | 1988      | 1987*     | 1986     | 1985     |
|------------------------------------------------------------|-----------|-----------|-----------|----------|----------|
| <b>Earnings Data</b> (For the year ended October 31)       |           |           |           |          |          |
| Net income (\$ millions) . . . . .                         | \$ 529    | \$ 712    | \$ 512    | \$ 452   | \$ 454   |
| Return on assets. . . . .                                  | .47%      | .68%      | .51%      | .46%     | .49%     |
| Return on common shareholders' equity . . . . .            | 10.1%     | 17.2%     | 11.5%     | 10.9%    | 12.4%    |
| <b>Balance Sheet Data</b> (As at October 31) (\$ millions) |           |           |           |          |          |
| Total assets. . . . .                                      | \$114,660 | \$110,054 | \$102,170 | \$99,607 | \$96,017 |
| Loans . . . . .                                            | 83,239    | 77,781    | 69,293    | 65,934   | 63,831   |
| Deposits. . . . .                                          | 89,186    | 87,238    | 85,811    | 84,253   | 83,543   |
| Debentures . . . . .                                       | 2,118     | 2,000     | 1,521     | 2,068    | 1,749    |
| Shareholders' equity . . . . .                             | 5,782     | 5,087     | 4,364     | 4,662    | 4,168    |
| <b>Capital Ratios – BIS Risk-Based</b> (As at October 31)  |           |           |           |          |          |
| Tier I capital ratio. . . . .                              | 4.8%      | 4.2%      |           |          |          |
| Tier II capital ratio . . . . .                            | 2.4%      | 2.4%      |           |          |          |
| Total capital ratio . . . . .                              | 7.2%      | 6.6%      |           |          |          |
| <b>Common Stock Data</b> (For the year ended October 31)   |           |           |           |          |          |
| Earnings per share                                         |           |           |           |          |          |
| Basic . . . . .                                            | \$ 3.29   | \$ 5.05   | \$ 3.78   | \$ 3.68  | \$ 3.93  |
| Fully diluted . . . . .                                    | 3.25      | 4.83      | 3.62      | 3.46     | 3.64     |
| Dividends per share. . . . .                               | 2.20      | 2.08      | 2.02      | 2.00     | 2.00     |
| Share Price: High . . . . .                                | 48.75     | 36.50     | 38.88     | 35.25    | 32.38    |
| Low . . . . .                                              | 33.75     | 26.13     | 25.63     | 27.50    | 27.50    |
| Close – October 31 . . . . .                               | 48.50     | 36.00     | 27.75     | 33.25    | 31.50    |
| Book value – October 31 . . . . .                          | 32.31     | 31.16     | 28.40     | 34.14    | 33.10    |
| <b>Number of:</b> (As at October 31)                       |           |           |           |          |          |
| Common shareholders . . . . .                              | 81,901    | 87,613    | 88,814    | 89,752   | 89,947   |
| Common shares outstanding (thousands) . . . . .            | 143,337   | 132,650   | 118,005   | 106,522  | 99,427   |
| Employees (full-time equivalent) . . . . .                 | 47,989    | 46,096    | 42,839    | 43,229   | 41,951   |
| Branches . . . . .                                         | 1,607     | 1,560     | 1,517     | 1,496    | 1,494    |
| Automated banking machines . . . . .                       | 2,324     | 1,628     | 1,336     | 1,170    | 898      |

\*Earnings results for 1987 are expressed before the special provision for losses on country lending. After the special provision, the Bank reported a net loss of \$288 million, or \$3.20 per common share.

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### Notice to Shareholders

The Annual and Special Meeting of Common Shareholders and the Special Meeting of Preferred Shareholders of the Bank will be held in Le Grand Salon, Queen Elizabeth Hotel, in the City of Montreal, on Thursday the 11th day of January 1990, at 10:30 a.m.

The annual report, and the proceedings of the annual meeting, will be sent to all shareholders of the Bank in due course.

## CHAIRMAN'S MESSAGE

Dear Shareholder,

This past year marks the end of a turbulent decade for Canada's banking industry, as well as for The Royal Bank of Canada. In retrospect, it has been a decade characterized by extreme volatility in financial markets, uneven economic growth, and intense competition from both new and traditional sources – all within an increasingly deregulated financial services environment.

For the Royal Bank – Canada's largest financial institution – the past ten years have not been easy. For most of the 1980s, we experienced abnormally high levels of problem loans, as many resource sector clients and Third World borrowers encountered severe debt servicing difficulties.

Yet, as difficult as these past ten years have been, they have witnessed some of the most important initiatives in the Royal Bank's 121-year history – initiatives which will help to ensure sustainable core earnings growth over the course of the next decade.

Perhaps the clearest example has been our aggressive investment in our service delivery network and in employee training. We now enter the 1990s with the largest branch banking franchise in North America and with one of the world's 10 biggest automated banking machine networks. Along with our staff, they're our most important competitive strength – a major factor behind our leading market share in mortgages, personal loans, and deposits. It's a strength we intend to exploit as we sell an ever-increasing array of financial products such as mutual funds, private banking and card services.

Our acquisition in 1988 of Canada's largest securities dealer, Dominion Securities, and its subsequent purchase of Pemberton Securities, have also strengthened our position. These important additions to the Royal Bank group now enable us to offer an even broader range of products and services to corporate and retail banking clients alike.

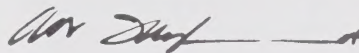
The last ten years have witnessed major changes within the Bank's international operations. We've scaled back our activities in those parts of the globe that didn't offer appropriate returns or which didn't mesh with our strategy. At the same time, we've enhanced our presence in such key markets as New York, London, and Tokyo – where we are already seeing positive results.

We've also taken aggressive action with respect to our LDC debt position. Our country risk provision now stands at 70% of our total exposure to troubled Third World borrowers. Furthermore, our net LDC exposure now represents only 27% of common shareholders' equity.

As the last two years have demonstrated, our private sector loan portfolio has returned to health, and is the strongest it has been in more than a decade. Importantly, we have policies and procedures in place to ensure it remains that way.

We enter the 1990s in a position of considerable strength and with a clear vision of our future. It's a vision based on excellent customer service, sustained credit quality, and increased shareholder wealth.

Sincerely,



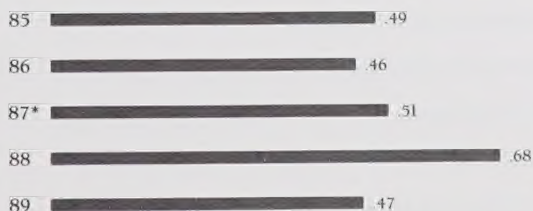
**ALLAN R. TAYLOR**

*Chairman and Chief Executive Officer*

*December 5, 1989*

### Return on Assets

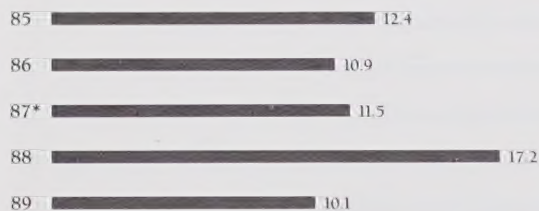
%



*\*before special provision for losses on country lending*

### Return on Equity

%



*\*before special provision for losses on country lending*



## EARNINGS OVERVIEW

For 1989, The Royal Bank of Canada recorded net income of \$529 million, a reduction of 26% from 1988. Fully diluted earnings per share were \$3.25, down \$1.58 from last year. Return on average assets was .47% compared to .68% in 1988, while return on common shareholders' equity was 10.1% versus 17.2% a year ago.

The year's results reflect a \$1.1 billion addition to the Bank's provision for possible losses on loans to less developed countries (LDCs). The comparable addition in 1988 was \$360 million. Table 1 provides a comparison of the Bank's net income for 1989 and 1988 excluding these additions to the country risk provision and the net interest income attributable to LDC lending. On this basis, fully diluted earnings per share would have been \$7.13 in 1989, an increase of 31% from the \$5.44 which would have been recorded in 1988. Similarly, return on average assets would have been .99% versus .79% in 1988, while return on equity would have been 22.2% compared to 19.5% last year.

The average number of common shares outstanding, on a fully diluted basis, was 145.1 million in 1989 compared to 141.1 million in 1988.

This year's \$1.1 billion addition to the country risk provision raised the provision to 70% of LDC debt exposure, from 45% at the end of 1988. As a result of this addition, and the sale during the year of \$685 million of LDC loans, the Bank's net LDC exposure declined to 27% of common shareholders' equity from 67% a year ago.

In 1989, domestic operations generated net income of \$865 million, up \$163 million from last year. The improvement stemmed from a higher volume of consumer and business loans, greater fee income and a lower provision for loan losses. Domestic return on assets was .98%, up 6 basis points from 1988.

International operations registered a net after-tax loss of \$336 million, compared to a profit of \$11 million last year. This reduction was due to the \$1.1 billion addition to the Bank's country risk provision (three times as large as in 1988) and to lower interest payments from major Latin American debtor nations, two of which – Venezuela and the Dominican Republic – were classified as non-accrual during the year. These negative factors were mitigated by gains on divestitures of subsidiaries, by improved returns on the Bank's remaining international

portfolio, particularly in the United States and Europe, and by lower non-interest expenses. Excluding LDC lending, international return on assets would have been 1.02% in 1989, up from .39% a year ago.

In 1989, the Bank's investment banking subsidiary, RBC Dominion Securities, recorded net income of \$32 million, notwithstanding substantial one-time costs associated with its acquisition of Pemberton Securities during the year. This compared to net income of \$28 million in 1988.

## ASSET GROWTH

Average assets in 1989 were \$112.7 billion, \$8.4 billion higher than in 1988. Average domestic assets were up \$11.5 billion. The consumer sector exhibited continued strength, with average mortgage balances up \$3.4 billion and average personal loans up \$950 million from 1988. Business loans and bankers' acceptances increased by a healthy \$5.3 billion, reflecting corporate borrowers' continued preference for bank financing relative to the equity and bond markets. Average international assets declined \$3.1 billion due to a reduction in deposits with other banks, divestitures of subsidiaries and a lower translated value of foreign currency-denominated assets resulting from a stronger Canadian dollar.

In 1989, the Bank continued its policy of reducing low-yielding assets, while maintaining a prudent level of liquidity. Overall, the Bank's liquid assets, comprising mostly deposits with other banks and securities, represented a conservative 13% of total assets at year-end 1989.

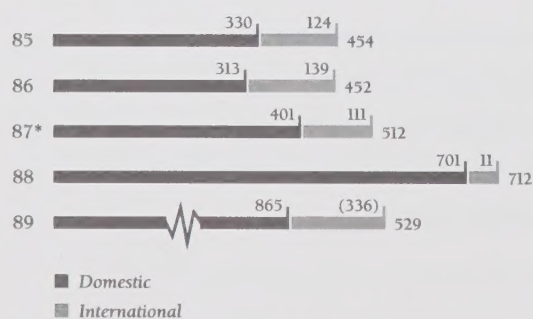
## NET INTEREST INCOME

Taxable equivalent net interest income was \$3,716 million, up \$355 million or 11% from 1988. Relative to average assets, net interest income increased to 3.30% from 3.22% last year.

Domestic net interest income was up \$344 million to \$3,080 million, due primarily to higher consumer and business lending activity. The domestic net interest margin declined to 3.50% from 3.58% last year. This slight decline reflects a substantial increase in bankers' acceptances, which generate fee income, not net interest income.

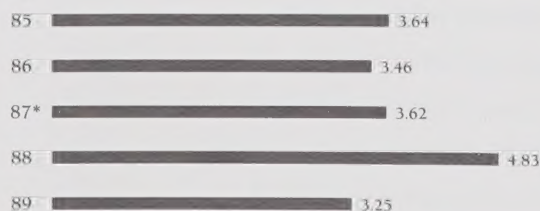
International net interest income increased \$11 million to \$636 million. The classification to non-accrual status of loans to Venezuela and the Dominican Republic resulted in a \$38 million reduction in interest income from those countries

**Net Income**  
(\$ Millions)



\*before special provision for losses on country lending

**Earnings Per Share**  
(Fully Diluted)  
(\$)



\*before special provision for losses on country lending

**TABLE 1****COMPARISON OF NET INCOME EXCLUDING LDC LENDING**

For the year ended October 31

(\$ millions)

|                                             | Total Bank |           | LDC Lending* |         | Total Bank, excluding LDC Lending |           |
|---------------------------------------------|------------|-----------|--------------|---------|-----------------------------------|-----------|
|                                             | 1989       | 1988      | 1989         | 1988    | 1989                              | 1988      |
| Net interest income .....                   | \$3,625    | \$3,280   | \$ 140       | \$205   | \$3,485                           | \$3,075   |
| Provision for loan losses .....             | 1,380      | 750       | 1,100        | 360     | 280                               | 390       |
|                                             | 2,245      | 2,530     | (960)        | (155)   | 3,205                             | 2,685     |
| Other income .....                          | 1,538      | 1,270     | —            | —       | 1,538                             | 1,270     |
|                                             | 3,783      | 3,800     | (960)        | (155)   | 4,743                             | 3,955     |
| Non-interest expenses .....                 | 2,935      | 2,550     | —            | —       | 2,935                             | 2,550     |
|                                             | 848        | 1,250     | (960)        | (155)   | 1,808                             | 1,405     |
| Income taxes and minority interest .....    | 319        | 538       | (397)        | (69)    | 716                               | 607       |
| Net income (loss)                           | \$ 529     | \$ 712    | \$ (563)     | \$ (86) | \$1,092                           | \$ 798    |
| Earnings per share                          |            |           |              |         |                                   |           |
| Basic .....                                 | \$3.29     | \$5.05    |              |         | \$7.27                            | \$5.74    |
| Fully diluted .....                         | \$3.25     | \$4.83    |              |         | \$7.13                            | \$5.44    |
| Average assets .....                        | \$112,700  | \$104,300 | \$2,300      | \$3,000 | \$110,400                         | \$101,300 |
| Return on assets .....                      | .47%       | .68%      |              |         | .99%                              | .79%      |
| Average common shareholders' equity .....   | \$4,618    | \$3,691   |              |         | \$4,618                           | \$3,691   |
| Return on common shareholders' equity ..... | 10.1%      | 17.2%     |              |         | 22.2%                             | 19.5%     |

\*For LDC lending, net interest income represents the sum of interest received on non-accrual loans and interest accrued on performing loans, net of the interest cost of funding such loans. This funding cost is based on the gross amount of LDC loans less the amount of the country risk provision.

in 1989. Also, the Bank received \$17 million less interest from Argentina than in 1988. However, these reduced interest payments were more than offset by higher income from the remaining international portfolio and from net gains on divestitures of subsidiaries. Overall, the international net interest margin was up 33 basis points to 2.58%, partly as a result of a reduction in lower-yielding assets.

**OTHER INCOME**

Other income totalled \$1,538 million, an increase of \$268 million or 21% from last year. RBC Dominion Securities, which was consolidated commencing in the third quarter of 1988, accounted for more than half of this increase. The Bank also registered an increase in revenues from bankers' acceptances as well as from deposit account, credit card, and investment management services.

**NON-INTEREST EXPENSES**

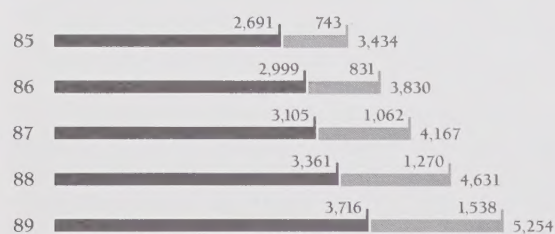
Non-interest expenses totalled \$2,935 million in 1989, an increase of 15% from last year. Excluding RBC Dominion Securities for both 1988 and 1989, the growth was a more moderate 7.6%. On this basis, staff costs rose 9%, reflecting a greater number of customer service positions and merit increases for employees. The latter included the effect of a newly implemented incentive program for managerial personnel. Premises and equipment costs increased 6% as the Bank continued to enhance its network of branches and automated banking machines in order to better serve its customers. Other expenses, which encompass a broad range of business costs, rose 6%, in tandem with the overall volume of business.

**Average Assets**

(\$ Billions)

**Gross Revenue**

(\$ Millions)



■ Net Interest Income (taxable equivalent basis)

■ Other Income



**TABLE 2****FIVE YEAR HIGHLIGHTS OF EARNINGS (AS A % OF AVERAGE ASSETS)**

| (taxable equivalent basis)               | 1989   | 1988   | 1987*  | 1986   | 1985   |
|------------------------------------------|--------|--------|--------|--------|--------|
| Net interest income .....                | 3.30%  | 3.22%  | 3.09%  | 3.07%  | 2.92%  |
| Provision for loan losses .....          | (1.22) | (.72)  | (.90)  | (1.00) | (.74)  |
| Other income .....                       | 2.08   | 2.50   | 2.19   | 2.07   | 2.18   |
|                                          | 1.36   | 1.22   | 1.06   | .85    | .80    |
| Non-interest expenses .....              | 3.44   | 3.72   | 3.25   | 2.92   | 2.98   |
|                                          | (2.61) | (2.44) | (2.32) | (2.22) | (2.11) |
| Income taxes and minority interest ..... | .83    | 1.28   | .93    | .70    | .87    |
|                                          | (.36)  | (.60)  | (.42)  | (.24)  | (.38)  |
| Return on assets                         | .47%   | .68%   | .51%   | .46%   | .49%   |

\*before special provision for losses on country lending

**CREDIT QUALITY REVIEW**

The improvement in the Bank's private sector (non-LDC) loan portfolio continued in 1989. Net non-accrual loans were down more than one-third from a year ago, while private sector loan losses declined more than one-quarter from the previous year. The Bank remains confident that given the above trends and the increasing share of low-risk consumer loans within the overall business base, its loan portfolio will remain strong.

Furthermore, the Bank continues to maintain conservative credit policies and procedures, particularly with respect to financing leveraged buyouts (LBOs). At year-end 1989, the Bank's LBO portfolio, which is well diversified by industry, geography and amount, totalled \$1.2 billion. This represented 27% of common equity – the lowest level among Canadian banks.

With regard to its LDC position, the Bank sold \$685 million of loans in 1989 and raised its country risk provision to 70% of its remaining exposure to troubled borrower countries – one of the most conservative provisioning levels among international banks.

The past year also witnessed the introduction of a debt restructuring plan for Mexico devised by U.S. Treasury Secretary Nicholas Brady. Under the plan, which is not yet finalized, Mexico's major bank creditors have the option of either providing new loans to Mexico or exchanging their outstanding Mexican loans for bonds carrying a reduced interest rate of 6.25% or for floating-rate bonds equal to 65% of the loan principal. The Royal Bank favours the reduced interest option. Should the plan materialize, the new bonds will be secured by U.S. Treasury 30-year zero-coupon bonds, with at least 18 months of interest payments guaranteed.

**Non-accrual loans**

At October 31, 1989, the Bank's total non-accrual loans, after deducting the allowance for credit losses, were \$623 million, down \$404 million or 39% from year-end 1988. Most of the reduction was in domestic operations, where net non-accrual loans declined by \$302 million to \$432 million, reflecting continued improvement among resource sector accounts.

International net non-accrual loans totalled \$191 million, down \$102 million from last year due primarily to an improvement in the Bank's loan portfolio in the United States. The classification to non-accrual status this year of \$600 million of loans to Venezuela and \$185 million of loans to the Dominican Republic

did not affect the reported net non-accrual loan balance, as the addition to the country risk provision this year far exceeded these amounts. Therefore, the \$191 million of non-accrual loans at year-end 1989 relates entirely, as was the case a year ago, to the Bank's international private sector loan portfolio.

**Loan losses**

In 1989, the Bank's provision for loan losses was \$1,380 million. This included \$1,100 million in country risk provisions, compared to \$360 million last year. The provision for loan losses also included \$280 million in specific provisions, down \$110 million from last year, due largely to further strengthening in the Bank's energy loan portfolio. Specific provisions approximated .25% of average assets in 1989 and are expected to stabilize at this level.

Domestic loan losses were \$285 million, down from \$320 million last year. Internationally, excluding the addition to the country risk provision, the Bank recorded a net recovery of \$5 million, due primarily to an improvement in its corporate loan portfolio in the United States. This compares to specific provisions of \$70 million last year.

**CAPITAL FUNDS**

At October 31, 1989, the Royal Bank's total capital, comprising common and preferred shareholders' equity and subordinated debentures, stood at \$7.9 billion, an increase of \$813 million or 11% from year-end 1988. Common shareholders' equity was up \$498 million due to \$150 million of internally generated capital, \$123 million raised through the Bank's Shareholder Dividend and Share Purchase Plan and \$225 million resulting from the conversion into common equity in December 1988 of 7.5 million of the Bank's remaining \$2.75 Second Preferred Shares Series A. Preferred shares rose \$197 million as \$400 million of Tier I-qualifying non-cumulative preferred shares, issued in the fourth quarter, was partially offset by the conversion of the remaining Second Preferred Shares Series A. Total debentures increased \$118 million, reflecting a \$250 million issue in the fourth quarter of 10-year 10.2% debentures, offset by \$132 million relating to redemptions and to translation adjustments on U.S. dollar-denominated debentures.

At year-end 1989, the Bank's Tier I and Total capital ratios, using the transitional B.I.S. rules, were 4.8% and 7.2% respectively. These compare to 4.2% and 6.6% at the end of 1988.



**TABLE 3****QUARTERLY HIGHLIGHTS OF EARNINGS (AS A % OF AVERAGE ASSETS)**

| (taxable equivalent basis)                   | Q4<br>1989 | Q3<br>1989 | Q2<br>1989 | Q1<br>1989 | Q4<br>1988 | Q3<br>1988 | Q2<br>1988 | Q1<br>1988 |
|----------------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Net interest income . . . . .                | 3.32%      | 3.26%      | 3.15%      | 3.46%      | 3.28%      | 3.38%      | 3.21%      | 3.01%      |
| Provision for loan losses . . . . .          | (3.20)     | (.51)      | (.53)      | (.56)      | (.38)      | (.83)      | (.93)      | (.76)      |
| Other income . . . . .                       | 1.12       | 2.75       | 2.62       | 2.90       | 2.90       | 2.55       | 2.28       | 2.25       |
|                                              | 1.44       | 1.37       | 1.33       | 1.32       | 1.25       | 1.29       | 1.17       | 1.16       |
| Non-interest expenses . . . . .              | 1.56       | 4.12       | 3.95       | 4.22       | 4.15       | 3.84       | 3.45       | 3.41       |
|                                              | (2.69)     | (2.65)     | (2.59)     | (2.48)     | (2.53)     | (2.49)     | (2.41)     | (2.34)     |
| Income taxes and minority interest . . . . . | (1.13)     | 1.47       | 1.36       | 1.74       | 1.62       | 1.35       | 1.04       | 1.07       |
|                                              | .46        | (.63)      | (.57)      | (.77)      | (.81)      | (.62)      | (.46)      | (.47)      |
| Return on assets                             | (.67)%     | .84%       | .79%       | .97%       | .81%       | .73%       | .58%       | .60%       |

**ADDITIONAL INFORMATION**

|                                        | Q4<br>1989 | Q3<br>1989 | Q2<br>1989 | Q1<br>1989 | Q4<br>1988 | Q3<br>1988 | Q2<br>1988 | Q1<br>1988 |
|----------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Earnings per share                     |            |            |            |            |            |            |            |            |
| Basic . . . . .                        | (\$1.54)   | \$1.57     | \$1.41     | \$1.85     | \$1.55     | \$1.35     | \$1.03     | \$1.12     |
| Fully diluted . . . . .                | ( 1.54)    | 1.55       | 1.39       | 1.79       | 1.49       | 1.28       | .99        | 1.07       |
| Average shares outstanding (thousands) |            |            |            |            |            |            |            |            |
| Basic . . . . .                        | 143,144    | 142,432    | 141,683    | 137,926    | 131,786    | 130,489    | 120,060    | 118,905    |
| Fully diluted . . . . .                | 146,000    | 145,288    | 144,539    | 144,382    | 142,929    | 145,006    | 138,815    | 137,661    |
| Shares outstanding (thousands)         |            |            |            |            |            |            |            |            |
| End of period                          | 143,337    | 142,630    | 141,907    | 141,102    | 132,650    | 131,109    | 129,444    | 119,404    |
| Return on common shareholders' equity  | (17.6)%    | 18.6%      | 17.7%      | 23.5%      | 20.0%      | 18.0%      | 14.4%      | 15.7%      |
| Book value per share                   | \$32.31    | \$34.31    | \$33.25    | \$32.36    | \$31.16    | \$30.13    | \$29.32    | \$28.97    |
| Common share price - High . . . . .    | \$48.75    | \$47.25    | \$42.00    | \$38.63    | \$36.50    | \$32.75    | \$29.50    | \$29.50    |
| - Low . . . . .                        | 44.75      | 41.63      | 37.00      | 33.75      | 30.88      | 26.75      | 26.13      | 26.25      |
| - Close . . . . .                      | 48.50      | 47.13      | 41.88      | 38.50      | 36.00      | 32.63      | 27.88      | 27.38      |

In the first quarter of fiscal 1989, the Royal Bank raised its quarterly dividend from \$0.52 to \$0.55 per common share. Subsequent to year end, the Bank announced a further increase in its quarterly dividend to \$0.58 per common share, payable February 23, 1990 to shareholders of record January 24, 1990.

The bank also announced its intention to split its common shares on a two-for-one basis, contingent upon shareholder approval at the Bank's Annual and Special Meeting of Shareholders, to be held January 11, 1990. It is expected that the proposed split will be effective on or about February 9, 1990.

**FOURTH QUARTER 1989**

In the fourth quarter of 1989, the Royal Bank recorded a net loss of \$195 million, or \$1.54 per share, compared with net income of \$221 million, or \$1.49 per share (fully diluted), in the same quarter of 1988.

The results for the fourth quarter reflect an \$875 million addition to the Bank's country risk provision. The comparable addition a year ago was \$40 million. Had the Bank added an originally planned \$75 million to its country risk provision in the fourth quarter, as in the three previous quarters of this fiscal year, net income would have been up 29% from a year ago to \$286 million. Fully diluted earnings per share would have been \$1.84, an increase of 23% from the fourth quarter of last year. Return on assets and return on common shareholders' equity would have been .98% and 21.3% respectively, versus .81% and 20.0% a year ago.

The Bank's core earnings remained strong, reflecting solid growth in residential mortgages and business loans, and higher income from fee-based services. Overall, domestic earnings

totalled \$235 million versus \$204 million in the fourth quarter of 1988. These earnings reflect a positive contribution from RBC Dominion Securities. International operations incurred a \$430 million loss, compared to net income of \$17 million a year ago, due to the large addition to the country risk provision this quarter.

Taxable equivalent net interest income was up \$74 million or 8% from a year ago, due to substantially higher volumes of consumer and business loans. This increase was realized in spite of no interest receipts from Brazil this quarter, compared to receipts of \$44 million in the fourth quarter of 1988.

Other income increased \$79 million or 23% from the same quarter of last year. Higher income earned by RBC Dominion Securities, resulting partially from the inclusion, for the first time, of a full quarter of Pemberton Securities' results, contributed to one-third of the increase. Greater revenues from deposit account, investment management and credit card services contributed to the remaining increase.

Non-interest expenses were up \$95 million or 14% from a year ago. RBC Dominion Securities accounted for one-third of the increase, due in part to the inclusion of Pemberton Securities' expenses this quarter. More customer service positions within the Bank, continued investment in premises and technology, and an overall higher volume of business activity were largely responsible for the remaining increase in non-interest expenses.

The provision for loan losses in the fourth quarter included \$60 million in specific provisions, compared to \$65 million a year ago.

## FINANCIAL STATEMENTS

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### MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

These financial statements were prepared by the management of The Royal Bank of Canada. While the form of the financial statements and the accounting policies to be followed are prescribed by the Bank Act and related rules issued by the Superintendent of Financial Institutions, many amounts must of necessity be based on the best estimates and judgments of management.

In discharging its responsibility for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, written policies and procedure manuals, a written corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The system of internal controls is further supported by an inspection staff which conducts periodic inspections of all aspects of the Bank's operations. In addition, the Bank's Chief Inspector has full and unrestricted access to the Audit Committee of the Board of Directors which oversees management's responsibilities for financial reporting. The Audit Committee is composed entirely of directors who are neither officers nor employees of the Bank.

The Superintendent of Financial Institutions, at least once a year, makes such examination and enquiry into the affairs of the Bank as he feels necessary to satisfy himself that the provisions of the Bank Act, having reference to the safety of the depositors and shareholders of the Bank, are being duly observed and that the Bank is in a sound financial condition.

Touche Ross & Co. and Price Waterhouse, the independent auditors appointed by the shareholders of the Bank, have examined our financial statements in accordance with generally accepted auditing standards and their report follows. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings as to the integrity of the Bank's financial reporting and the adequacy of the system of internal controls.

#### **ALLAN R. TAYLOR**

*Chairman and Chief Executive Officer*

#### **A. H. MICHELL**

*Vice-Chairman*

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### AUDITORS' REPORT

*To the Shareholders, The Royal Bank of Canada*

We have examined the consolidated statement of assets and liabilities of The Royal Bank of Canada as at October 31, 1989 and the consolidated statements of income, changes in shareholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Bank as at October 31, 1989 and the results of its operations and changes in its financial position for the year then ended in accordance with accounting principles prescribed by the Bank Act applied on a basis consistent with that of the preceding year.

#### **TOUCHE ROSS & CO.**

#### **PRICE WATERHOUSE**

*Chartered Accountants*

*Montreal, December 4, 1989*

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# **CONSOLIDATED STATEMENT OF INCOME**

(in thousands of dollars)

|                                                                      | Year Ended<br>October 31,<br>1989 | Year Ended<br>October 31,<br>1988 |
|----------------------------------------------------------------------|-----------------------------------|-----------------------------------|
| <b>Interest Income</b>                                               |                                   |                                   |
| Loans (note 2) . . . . .                                             | \$9,916,478                       | \$7,796,654                       |
| Lease financing . . . . .                                            | 130,990                           | 117,830                           |
| Securities (note 2) . . . . .                                        | 970,530                           | 706,339                           |
| Deposits with banks . . . . .                                        | 675,577                           | 703,851                           |
|                                                                      | <b>11,693,575</b>                 | <b>9,324,674</b>                  |
| <b>Interest Expense</b>                                              |                                   |                                   |
| Deposits . . . . .                                                   | 7,772,125                         | 5,871,466                         |
| Bank debentures . . . . .                                            | 205,735                           | 141,549                           |
| Other . . . . .                                                      | 91,035                            | 31,254                            |
|                                                                      | <b>8,068,895</b>                  | <b>6,044,269</b>                  |
| <b>Net Interest Income</b> . . . . .                                 | <b>3,624,680</b>                  | <b>3,280,405</b>                  |
| Provision for loan losses . . . . .                                  | 1,380,000                         | 750,000                           |
| <b>Net Interest Income After Provision for Loan Losses</b> . . . . . | <b>2,244,680</b>                  | <b>2,530,405</b>                  |
| Other income (note 2) . . . . .                                      | 1,537,791                         | 1,270,302                         |
| <b>Net Interest and Other Income</b> . . . . .                       | <b>3,782,471</b>                  | <b>3,800,707</b>                  |
| <b>Non-Interest Expenses</b>                                         |                                   |                                   |
| Salaries . . . . .                                                   | 1,554,917                         | 1,331,886                         |
| Pension and other staff benefits . . . . .                           | 151,289                           | 135,257                           |
| Premises and equipment, including depreciation . . . . .             | 513,511                           | 462,460                           |
| Other . . . . .                                                      | 715,154                           | 620,095                           |
|                                                                      | <b>2,934,871</b>                  | <b>2,549,698</b>                  |
| <b>Net Income Before Income Taxes</b> . . . . .                      | <b>847,600</b>                    | <b>1,251,009</b>                  |
| Income taxes (note 3) . . . . .                                      | 305,000                           | 530,000                           |
| <b>Net Income Before Minority Interest</b> . . . . .                 | <b>542,600</b>                    | <b>721,009</b>                    |
| Minority interest in net income of subsidiaries . . . . .            | 13,527                            | 8,691                             |
| <b>Net Income</b>                                                    | <b>\$ 529,073</b>                 | <b>\$ 712,318</b>                 |
| <b>Income per Share (note 4)</b>                                     |                                   |                                   |
| Basic . . . . .                                                      | <b>\$3.29</b>                     | <b>\$5.05</b>                     |
| Fully diluted . . . . .                                              | <b>\$3.25</b>                     | <b>\$4.83</b>                     |



# CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

(in thousands of dollars)

|                                                                              | October 31,<br>1989  | October 31,<br>1988  |
|------------------------------------------------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                                                                |                      |                      |
| <b>Cash Resources</b>                                                        |                      |                      |
| Cash and deposits with Bank of Canada .....                                  | \$ 1,364,801         | \$ 2,307,487         |
| Deposits with other banks .....                                              | 6,822,322            | 7,786,055            |
|                                                                              | <b>8,187,123</b>     | <b>10,093,542</b>    |
| <b>Securities (note 5)</b>                                                   |                      |                      |
| Issued or guaranteed by Canada .....                                         | 3,332,601            | 3,239,953            |
| Issued or guaranteed by provinces and municipal or school corporations ..... | 767,345              | 685,916              |
| Other securities .....                                                       | 3,889,545            | 4,946,371            |
|                                                                              | <b>7,989,491</b>     | <b>8,872,240</b>     |
| <b>Loans (note 6)</b>                                                        |                      |                      |
| Day, call and short loans to investment dealers and brokers, secured .....   | 336,960              | 883,099              |
| Loans to banks .....                                                         | 1,264,076            | 1,868,196            |
| Mortgage loans .....                                                         | 23,523,982           | 20,414,941           |
| Other loans .....                                                            | 58,113,767           | 54,615,103           |
|                                                                              | <b>83,238,785</b>    | <b>77,781,339</b>    |
| <b>Other</b>                                                                 |                      |                      |
| Customers' liability under acceptances .....                                 | 10,700,562           | 9,538,994            |
| Land, buildings and equipment (note 8) .....                                 | 1,508,691            | 1,334,558            |
| Other assets (note 9) .....                                                  | 3,034,906            | 2,433,667            |
|                                                                              | <b>15,244,159</b>    | <b>13,307,219</b>    |
|                                                                              | <b>\$114,659,558</b> | <b>\$110,054,340</b> |
| <b>LIABILITIES</b>                                                           |                      |                      |
| <b>Deposits (note 10)</b>                                                    |                      |                      |
| Payable on demand .....                                                      | \$ 8,219,514         | \$ 8,614,685         |
| Payable after notice .....                                                   | 33,654,488           | 30,445,607           |
| Payable on a fixed date .....                                                | 47,312,273           | 48,177,988           |
|                                                                              | <b>89,186,275</b>    | <b>87,238,280</b>    |
| <b>Other</b>                                                                 |                      |                      |
| Cheques and other items in transit, net .....                                | 281,690              | 46,045               |
| Acceptances .....                                                            | 10,700,562           | 9,538,994            |
| Liabilities of subsidiaries other than deposits (note 11) .....              | 1,113,195            | 1,201,322            |
| Other liabilities (note 12) .....                                            | 5,379,683            | 4,843,441            |
| Minority interest in subsidiaries .....                                      | 97,800               | 99,020               |
|                                                                              | <b>17,572,930</b>    | <b>15,728,822</b>    |
| <b>Subordinated Debt</b>                                                     |                      |                      |
| Bank debentures (note 13) .....                                              | 2,118,399            | 2,000,214            |
| <b>Shareholders' Equity</b>                                                  |                      |                      |
| <b>Capital stock (note 14)</b>                                               |                      |                      |
| Preferred .....                                                              | 1,150,357            | 953,668              |
| Common .....                                                                 | 2,309,236            | 1,961,590            |
| Retained earnings .....                                                      | 2,322,361            | 2,171,766            |
|                                                                              | <b>5,781,954</b>     | <b>5,087,024</b>     |
|                                                                              | <b>\$114,659,558</b> | <b>\$110,054,340</b> |

**ALLAN R. TAYLOR**

Chairman and Chief Executive Officer

**JOHN E. CLEGHORN**

President



## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of dollars)

|                                                                                                                               | Year Ended<br>October 31,<br>1989 | Year Ended<br>October 31,<br>1988 |
|-------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|
| <b>Capital Stock</b>                                                                                                          |                                   |                                   |
| Balance at beginning of year . . . . .                                                                                        | \$2,915,258                       | \$2,557,208                       |
| Issue of preferred shares . . . . .                                                                                           | 400,000                           | —                                 |
| Issue of common shares . . . . .                                                                                              | 347,646                           | 416,500                           |
| Preferred shares converted into common shares . . . . .                                                                       | (187,277)                         | (44,551)                          |
| Preferred shares redeemed, retracted and purchased for cancellation . . . . .                                                 | (10,804)                          | (4,929)                           |
| Translation adjustment on shares issued in foreign currency . . . . .                                                         | (5,230)                           | (8,970)                           |
| Balance at end of year . . . . .                                                                                              | \$3,459,593                       | \$2,915,258                       |
| <b>Retained Earnings</b>                                                                                                      |                                   |                                   |
| Balance at beginning of year . . . . .                                                                                        | \$2,171,766                       | \$1,806,622                       |
| Net income . . . . .                                                                                                          | 529,073                           | 712,318                           |
| Dividends (note 14) . . . . .                                                                                                 | (377,562)                         | (345,643)                         |
| Gain (loss) on preferred shares retracted and purchased for cancellation . . . . .                                            | (99)                              | 359                               |
| Expense of share issues, net of income taxes (note 3) . . . . .                                                               | (6,577)                           | —                                 |
| Unrealized foreign currency translation gains (losses), net of hedging activities and related income taxes (note 3) . . . . . | 5,760                             | (1,890)                           |
| Balance at end of year . . . . .                                                                                              | \$2,322,361                       | \$2,171,766                       |

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(in thousands of dollars)

|                                                  | Year Ended<br>October 31,<br>1989 | Year Ended<br>October 31,<br>1988 |
|--------------------------------------------------|-----------------------------------|-----------------------------------|
| <b>Funds Derived From</b>                        |                                   |                                   |
| <b>Operations</b>                                |                                   |                                   |
| Net income . . . . .                             | \$ 529,073                        | \$ 712,318                        |
| Dividends . . . . .                              | (377,562)                         | (345,643)                         |
| Other . . . . .                                  | (916)                             | (1,531)                           |
|                                                  | 150,595                           | 365,144                           |
| <b>Capital</b>                                   |                                   |                                   |
| Bank debentures . . . . .                        | 118,185                           | 479,314                           |
| Preferred shares . . . . .                       | 196,689                           | (58,450)                          |
| Common shares . . . . .                          | 347,646                           | 416,500                           |
|                                                  | 662,520                           | 837,364                           |
| <b>Banking</b>                                   |                                   |                                   |
| Deposits . . . . .                               | 1,947,995                         | 1,427,250                         |
| Acceptances . . . . .                            | 1,161,568                         | 2,312,555                         |
| Other . . . . .                                  | 682,540                           | 2,941,826                         |
|                                                  | 3,792,103                         | 6,681,631                         |
| <b>Net Funds Provided</b>                        | \$ 4,605,218                      | \$ 7,884,139                      |
| <b>Funds Invested In</b>                         |                                   |                                   |
| Cash resources . . . . .                         | \$(1,906,419)                     | \$(3,716,432)                     |
| Securities . . . . .                             | (882,749)                         | 286,436                           |
| Loans . . . . .                                  | 5,457,446                         | 8,488,800                         |
| Customers' liability under acceptances . . . . . | 1,161,568                         | 2,312,555                         |
| Other . . . . .                                  | 775,372                           | 512,780                           |
| <b>Net Funds Invested</b>                        | \$ 4,605,218                      | \$ 7,884,139                      |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(all tabular figures are in thousands of dollars)

### 1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of The Royal Bank of Canada are prepared in accordance with accounting principles prescribed by the Bank Act and the related rules issued by the Superintendent of Financial Institutions under the authority of the Minister of Finance, and other prevailing practices of the banking industry. These regulations require the Bank to carry its assets and liabilities on the historical cost basis and to follow the accrual method of accounting.

#### Basis of Consolidation

The consolidated financial statements include the assets and liabilities and results of operations of all subsidiaries after elimination of intercompany transactions and balances. The Bank accounts for the acquisition of subsidiaries using the purchase method; any difference between the cost of the investment and the fair value of the net assets acquired is amortized over appropriate periods of 5 to 15 years.

#### Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at prevailing quarter-end rates.

#### Foreign Exchange Contracts

Foreign exchange contracts are valued at prevailing market rates, and the resulting unrealized gains and losses are included in "Other income" on a discounted present value basis.

#### Interest Rate Futures and Future Rate Agreements

The Bank uses interest rate futures and future rate agreements in trading activities and to hedge interest rate exposure on assets, liabilities and anticipated transactions.

When used in trading activities, interest rate futures and future rate agreements are marked to market and the resultant gains and losses are recognized in income.

#### Currency and Interest Rate Swaps

The Bank enters into currency and interest rate swaps as an intermediary between swapping counterparties in order to earn fee income, and as a principal in order to manage foreign currency and interest rate exposure.

When acting as an intermediary, the Bank records fees for arrangement services in income as received.

#### Foreign Currency and Interest Rate Options

The Bank enters into foreign currency and interest rate options as a writer in order to earn fee income, and as a purchaser in order to manage foreign currency and interest rate exposure.

#### Securities

Securities comprise investment account and trading account securities as well as loan substitute securities.

**Investment account securities** are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive. Equity securities are stated at cost and debt securities at amortized cost. Premiums and discounts on debt securities are amortized to income using the yield method over the period to maturity of the related securities. Gains and losses realized on disposal of securities and write-downs to reflect permanent impairment in value are included in income in the period in which they occur.

The accounting principles followed in the preparation of these financial statements conform in all material respects with accounting principles generally accepted in Canada.

Certain comparative figures have been reclassified to conform with the current year's presentation.

The significant accounting policies of the Bank are summarized below:

Investments in associated corporations (corporations owned between 20% and 50%) are accounted for under the equity method. The Bank's share of earnings of these associated corporations and gains and losses realized on dispositions of investments in associated corporations are included in income from securities.

Unrealized foreign currency translation gains and losses (net of hedging activities and related income taxes) on investments in foreign branches, subsidiaries and associated corporations are recorded in Retained Earnings. On disposal of such investments, the accumulated net translation gain or loss is included in income.

Realized gains and losses on spot and forward contracts are also included in "Other income".

When used for hedging purposes, gains and losses on interest rate futures and future rate agreements are generally deferred and recognized in income over the expected remaining life of the hedged item.

When acting as a principal, the Bank accrues income or expense associated with currency and interest rate swaps over the life of the agreements.

Both written and purchased options are marked to market and the resultant gains and losses are recognized in income. For written options, the maximum gain accrued is equal to the premiums received at inception; for purchased options, the maximum loss accrued is equal to the premiums paid at inception.

**Trading account securities**, which are purchased for resale over a short period of time, are stated at estimated current market value. Gains and losses realized on disposal and unrealized valuation adjustments are included in income in the period in which they occur. Obligations related to securities sold short or under repurchase agreements are included in "Other liabilities".

**Loan substitute securities** are customer financings which have been structured as after-tax investments rather than conventional loans in order to provide the issuers with a borrowing rate advantage. Such securities bear interest at floating rates and are accorded the accounting treatment applicable to Loans.

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## Loans

Loans are stated net of unearned interest and of an allowance for credit losses.

**Non-performing loans** consist of non-accrual loans and renegotiated reduced-rate loans. **Non-accrual loans** are those placed on a cash basis because there is reasonable doubt regarding the collectibility of principal or interest. Whenever payment of interest is 90 days past due, loans other than credit card balances are automatically placed on a non-accrual basis except in certain instances where management has determined that the collectibility of principal and interest is not reasonably in doubt. Upon classification of a loan to a non-accrual basis any previously accrued but unpaid interest thereon is reversed against income of the current period. In subsequent periods, interest received on non-accrual loans is recorded as income only if management has determined that the loan does not require a specific provision for loss; otherwise interest received is credited to principal. Non-accrual loans are restored to an accrual basis when principal and interest payments are current and there is no longer any reasonable doubt regarding collectibility. Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis as long as there is no reasonable doubt regarding the collectibility of principal and interest and interest is not 90 days past due. **Renegotiated reduced-rate loans** provide for a rate of interest lower than the prevailing market rates on similar loans to new borrowers.

## Allowance for Credit Losses

The allowance for credit losses is maintained in an amount considered adequate to absorb anticipated credit-related losses. Credit losses arise primarily from loans but also derive from deposits with other banks, loan substitute securities and other credit instruments such as acceptances, guarantees and letters of credit. The allowance is increased by provisions for losses which are charged to income, and reduced by write-offs net of recoveries and by losses realized on sales and exchanges of loans to troubled countries.

**Specific provisions** are established on an individual facility basis to recognize credit losses on most types of exposure. For consumer instalment loans, an aggregate provision is recorded by reference to historical ratios of write-offs to balances outstanding. For credit card balances, no provisions are recorded; instead, balances are written off when no payment has been received for 180 days.

## Acceptances

The Bank's potential liability under acceptances is reported as a liability in the Statement of Assets and Liabilities. The Bank's recourse

**Fees** which relate to such activities as originating, restructuring or renegotiating loans are recognized as "Interest Income" over the expected term of such loans. Where there is a reasonable expectation that a loan will result, commitment and standby fees are also recognized as "Interest Income" over the expected term of the resulting loan. Otherwise, such fees are recognized as "Other income" over the commitment or standby period.

**Lease receivables**, included in "Other loans", represent the aggregate remaining lease payments less unearned income. Unearned income, which at the inception of the lease represents the difference between total lease payments receivable and the cost of the leased asset, is amortized to income over the lease term so as to yield a constant rate of return on the declining balance of the lease receivable.

A **country risk provision** is made in respect of aggregate exposure in a number of troubled countries based on an overall assessment of the underlying economic conditions in those countries.

**Write-offs** are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote.

**Losses realized on sales and exchanges of loans to troubled countries** represent the excess of the face value of the loans given up over the cash and/or the fair value of the loans or equity securities received.

## Land, Buildings and Equipment

Land, buildings and equipment are stated at cost less accumulated depreciation. Depreciation is recorded principally on the straight-line method over the estimated useful lives as indicated below. Gains and losses on disposal are recorded in "Other income".

|                                         |                                        |
|-----------------------------------------|----------------------------------------|
| Buildings                               | 20 to 50 years                         |
| Computer equipment                      | 3 to 10 years                          |
| Furniture, fixtures and other equipment | 7 to 10 years                          |
| Leasehold improvements                  | term of lease plus first option period |

## Income Taxes

The Bank follows the tax allocation basis of accounting under which income taxes on specific transactions are recorded in the periods in which the transactions are recognized for accounting purposes regardless of when the transactions are recognized for tax purposes. Income taxes comprise amounts applicable to income included in the Statement of Income and to items charged or credited to Retained Earnings.

Deferred income taxes accumulated as a result of timing differences are included either in "Other assets" or "Other liabilities" as applicable. In addition, the Statement of Income contains items which are non-taxable or non-deductible for income tax purposes and accordingly cause the income tax provision to be different than it would be based on statutory rates.

## Pension Plan

The Bank maintains a defined benefit pension plan which is available to substantially all employees after two years service or at age 25, on a contributory or a non-contributory basis. The plan provides pensions based on years of service and contribution, and average earnings at retirement. Employees of subsidiaries of the Bank are generally covered by separate pension plans which offer comparable benefits.

An actuarial valuation is performed each year to determine the present value of the accrued pension benefits, based on projections of employees' compensation levels to the time of retirement. Pension fund assets are carried at adjusted market values.

Pension expense consists of the aggregate of (a) the actuarially computed cost of pension benefits provided in respect of the current year's service, (b) imputed interest on the funding excess or deficiency of the plan and (c) the amortization over the expected average remaining service life of employees of (i) the unamortized past service pension contribution existing as at October 31, 1985, the date the current accounting policy commenced, (ii) the funding excess or deficiency existing as at the date of the latest actuarial valuation and (iii) any experience gains or losses.

The cumulative excess of pension fund contributions over the amounts recorded as expense is reflected in "Other assets".



## 2. CHANGES IN ACCOUNTING POLICIES

### Loan Fees

Effective November 1, 1988, the Bank changed its policy for accounting for loan fees in accordance with a guideline issued by The Canadian Institute of Chartered Accountants.

Fees that relate to such activities as originating, restructuring or renegotiating loans are recognized as "Interest Income" over the expected terms of such loans. Where there is a reasonable expectation that a loan will result, commitment and standby fees are also recognized as "Interest Income" over the expected term of the resulting loan; otherwise, such fees are recognized as "Other income" over the commitment or standby period. Prior to November 1, 1988, all such loan fees were recognized as "Other income"; only fees that were in respect of loan rescheduling activities or considered to be in lieu of interest were deferred and amortized over the terms of such loans.

This change in accounting has had no material effect on Net Income for the year ended October 31, 1989. For comparative purposes, a reclassification of loan fees from "Other income" to "Interest Income" has been made in the Statement of Income for the year ended October 31, 1988 in the amount of \$119,660,000.

### Gains and Losses Realized on Disposal of Debt Securities

Effective November 1, 1988, the Bank changed its policy for accounting for gains and losses realized on disposal of debt securities in accordance with instructions issued by the Superintendent of Financial Institutions.

Gains and losses realized on disposal of debt securities are recognized immediately in income, whereas prior to November 1, 1988 such gains and losses were deferred and amortized to income over five years.

This change in accounting has not been applied retroactively and has had no material effect on Net Income for the year ended October 31, 1989.

### Losses on Exchanges of Loans to Troubled Countries

Effective November 1, 1988, the Bank retroactively changed its policy for accounting for losses realized on exchanges of loans to troubled countries.

Losses, representing the excess of the face value of the loans given up over the fair value of the loans received, are charged to the Allowance for Credit Losses. Prior to November 1, 1988 losses on such exchanges were recognized only to the extent the face value of the loans given up exceeded the face value of the loans received.

The change in accounting had the effect of charging losses of \$334,310,000 to the Allowance for Credit Losses, of which \$110,574,000, \$135,177,000 and \$88,559,000 relate to the years ended October 31, 1989, 1988 and 1987 and prior years respectively.

Loans, net of the Allowance for Credit Losses, were not affected by the change.

## 3. INCOME TAXES

Income taxes are reported in the financial statements as follows:

|                                                                                     | 1989      | 1988      |
|-------------------------------------------------------------------------------------|-----------|-----------|
| Statement of Income                                                                 | \$305,000 | \$530,000 |
| Statement of Retained Earnings                                                      |           |           |
| Expense of share issues                                                             | (4,700)   | —         |
| Unrealized foreign currency translation gains and losses, net of hedging activities | 46,700    | 51,500    |
| Total Income Tax Provision                                                          | \$347,000 | \$581,500 |

The current and deferred income taxes are as follows:

|                            |           |           |
|----------------------------|-----------|-----------|
| Current income taxes       | \$516,090 | \$266,232 |
| Deferred income taxes      | (169,090) | 315,268   |
| Total Income Tax Provision | \$347,000 | \$581,500 |

Income taxes in the Statement of Income are at an effective rate less than the composite federal and provincial statutory income tax rate for the following reasons:

|                                                                                                                |       |       |
|----------------------------------------------------------------------------------------------------------------|-------|-------|
| Composite federal and provincial statutory income tax rate                                                     | 41.8% | 46.6% |
| Changes in rate resulting from:                                                                                |       |       |
| Tax-exempt income from securities, primarily income debentures, term preferred shares and small business bonds | (3.8) | (2.3) |
| Lower average tax rate applicable to subsidiaries                                                              | (8.1) | (+8)  |
| Other, net                                                                                                     | 6.1   | 2.9   |
| Effective income tax rate                                                                                      | 36.0% | 42.4% |

## 4. INCOME PER SHARE

Basic Income per Share has been calculated after deducting preferred dividends of \$64,624,000 (1988 – \$79,365,000) and has been based on the average number of Common Shares outstanding for the year of 141,292,799 (1988 – 125,338,590).

Fully Diluted Income per Share has been calculated on the average number of Common Shares which would have been outstanding during the year of 145,056,461 (1988 – 141,115,260) assuming

conversion of all convertible securities and exercise of all warrants outstanding as at the beginning of each year or date of issue if later. For purposes of this calculation, adjustments of \$7,706,000 (1988 – \$48,897,000) have been made for the after-tax interest on convertible debentures, the dividends on convertible preferred shares and an imputed after-tax return at an appropriate rate on additional funds receivable on the conversion of the Second Preferred Shares Series A.

| 5. SECURITIES                                       | Maturity         |                 |                 |                  |                  | 1989               |                              | 1988               |                              |
|-----------------------------------------------------|------------------|-----------------|-----------------|------------------|------------------|--------------------|------------------------------|--------------------|------------------------------|
|                                                     | Within<br>1 Year | 1 to 3<br>Years | 3 to 5<br>Years | 5 to 10<br>Years | Over 10<br>Years | Carrying<br>Amount | Estimated<br>Market<br>Value | Carrying<br>Amount | Estimated<br>Market<br>Value |
| <b>Investment Account Securities</b>                |                  |                 |                 |                  |                  |                    |                              |                    |                              |
| Issued or guaranteed by Canada and provinces .....  | \$2,513,348      | \$ 12,551       | \$ —            | \$ 53,671        | \$ 19,759        | \$2,599,329        | \$2,599,716                  | \$2,738,117        | \$2,740,665                  |
| Other debt .....                                    | 329,443          | 158,303         | 146,839         | 55,810           | 23,375           | 713,770            | 709,612                      | 1,614,079          | 1,610,143                    |
| Other equity* .....                                 |                  |                 |                 |                  | 524,248          | 524,248            | 503,078                      | 528,668            | 492,616                      |
|                                                     | 2,842,791        | 170,854         | 146,839         | 109,481          | 567,382          | 3,837,347          | 3,812,406                    | 4,880,864          | 4,843,424                    |
| <b>Trading Account Securities</b> .....             | 1,779,661        | 315,635         | 127,888         | 378,936          | 480,733          | 3,082,853          | 3,082,853                    | 3,225,457          | 3,225,457                    |
| <b>Loan Substitute Securities</b>                   |                  |                 |                 |                  |                  |                    |                              |                    |                              |
| Income debentures .....                             | —                | —               | 40,735          | —                | —                | 40,735             | 40,735                       | 59,903             | 59,903                       |
| Small business bonds .....                          | 67,737           | 20,955          | —               | —                | —                | 88,692             | 88,692                       | 112,219            | 112,219                      |
| Term preferred shares .....                         | 62,213           | 10,876          | 292,168         | 188,925          | 239,814          | 793,996            | 793,996                      | 432,348            | 432,348                      |
|                                                     | 129,950          | 31,831          | 332,903         | 188,925          | 239,814          | 923,423            | 923,423                      | 604,470            | 604,470                      |
| <b>Securities of Associated Corporations*</b> ..... |                  |                 |                 |                  | 145,868          | 145,868            | 145,868                      | 161,449            | 161,449                      |
|                                                     | \$4,752,402      | \$518,320       | \$607,630       | \$677,342        | \$1,433,797      | \$7,989,491        | \$7,964,550                  | \$8,872,240        | \$8,834,800                  |

\*Securities of associated corporations and other equity securities have no stated term and have been classified under the "Over 10 Years" column.

| 6. LOANS                                                                   | 1989         | 1988         |
|----------------------------------------------------------------------------|--------------|--------------|
| <b>Domestic*</b>                                                           |              |              |
| Day, call and short loans to investment dealers and brokers, secured ..... | \$ 309,038   | \$ 881,337   |
| Provinces and municipal or school corporations .....                       | 165,923      | 97,749       |
| Lease receivables .....                                                    | 847,592      | 756,352      |
| Consumer instalment loans .....                                            | 7,735,852    | 7,616,787    |
| Mortgage loans .....                                                       | 22,669,693   | 19,234,774   |
| Other loans .....                                                          | 36,661,988   | 33,145,453   |
|                                                                            | 68,390,088   | 61,732,452   |
| Allowance for credit losses .....                                          | (292,230)    | (390,545)    |
|                                                                            | 68,097,858   | 61,341,907   |
| <b>International*</b>                                                      |              |              |
| Lease receivables .....                                                    | 284,135      | 428,089      |
| Associated corporations .....                                              | 43,492       | 55,561       |
| Loans to banks .....                                                       | 1,900,349    | 2,273,559    |
| Consumer instalment loans .....                                            | 225,613      | 345,941      |
| Mortgage loans .....                                                       | 854,759      | 1,180,617    |
| Other loans .....                                                          | 14,582,534   | 14,402,216   |
|                                                                            | 17,890,884   | 18,685,983   |
| Allowance for credit losses .....                                          | (2,749,957)  | (2,246,551)  |
|                                                                            | 15,140,927   | 16,439,432   |
|                                                                            | \$83,238,785 | \$77,781,339 |

\*Domestic loans include all loans booked in Canada, regardless of currency, with the exception of those of the Canadian-based International Money Markets. The loans of this unit, together with loans booked outside Canada, comprise International loans.

#### Non-performing Loans, net of Allowance for Credit Losses (included above)

|                                        |           |             |
|----------------------------------------|-----------|-------------|
| <b>Non-accrual Loans</b>               |           |             |
| Domestic .....                         | \$431,493 | \$ 733,637  |
| International .....                    | 191,085   | 293,111     |
|                                        | 622,578   | 1,026,748   |
| <b>Renegotiated Reduced-rate Loans</b> |           |             |
| Domestic .....                         | 125,452   | 109,551     |
| International .....                    | 1,330     | 1,845       |
|                                        | 126,782   | 111,396     |
|                                        | \$749,360 | \$1,138,144 |



| <b>7. ALLOWANCE FOR CREDIT LOSSES</b>                                                               |           |               | 1989        | 1988        |
|-----------------------------------------------------------------------------------------------------|-----------|---------------|-------------|-------------|
|                                                                                                     | Domestic  | International | Total       | Total       |
| Balance at beginning of year (note 2) .....                                                         | \$390,545 | \$2,246,551   | \$2,637,096 | \$2,655,718 |
| Provision for loan losses .....                                                                     | 285,000   | 1,095,000     | 1,380,000   | 750,000     |
| Write-offs, net of recoveries .....                                                                 | (382,305) | (26,670)      | (408,975)   | (507,864)   |
| Losses realized on sales and exchanges<br>of loans to troubled countries .....                      | —         | (462,552)     | (462,552)   | (150,037)   |
| Other, principally translation adjustments on provisions<br>denominated in foreign currencies ..... | (1,010)   | (102,372)     | (103,382)   | (110,721)   |
| Balance at end of year .....                                                                        | \$292,230 | \$2,749,957   | \$3,042,187 | \$2,637,096 |
| Composed of:                                                                                        |           |               |             |             |
| Specific provisions .....                                                                           | \$292,230 | \$ 148,177    | \$ 440,407  | \$ 582,557  |
| Country risk provision .....                                                                        | —         | 2,601,780     | 2,601,780   | 2,054,539   |
| Total .....                                                                                         | \$292,230 | \$2,749,957   | \$3,042,187 | \$2,637,096 |

| <b>8. LAND, BUILDINGS AND EQUIPMENT</b>       |             |                             | 1989              | 1988              |
|-----------------------------------------------|-------------|-----------------------------|-------------------|-------------------|
|                                               | Cost        | Accumulated<br>Depreciation | Net Book<br>Value | Net Book<br>Value |
| Land .....                                    | \$ 147,132  | \$ —                        | \$ 147,132        | \$ 137,848        |
| Buildings .....                               | 840,165     | 197,653                     | 642,512           | 607,375           |
| Computer equipment .....                      | 695,367     | 356,729                     | 338,638           | 252,256           |
| Furniture, fixtures and other equipment ..... | 486,975     | 285,741                     | 201,234           | 162,408           |
| Leasehold improvements .....                  | 322,304     | 143,129                     | 179,175           | 174,671           |
|                                               | \$2,491,943 | \$983,252                   | \$1,508,691       | \$1,334,558       |

Depreciation expense included in the Statement of Income for the year ended October 31, 1989 was \$171,461,000 (1988 – \$150,000,000).

| <b>9. OTHER ASSETS</b>                                                                        |  |  | 1989        | 1988        |
|-----------------------------------------------------------------------------------------------|--|--|-------------|-------------|
| Accrued interest .....                                                                        |  |  | \$ 870,369  | \$ 984,020  |
| Amounts receivable from brokers, dealers and clients .....                                    |  |  | 788,519     | 318,705     |
| Cumulative excess of pension fund contributions<br>over the amounts recorded as expense ..... |  |  | 71,364      | 70,176      |
| Deferred income taxes .....                                                                   |  |  | 347,637     | 178,170     |
| Goodwill .....                                                                                |  |  | 242,601     | 229,613     |
| Other items, including accounts receivable and prepaid expenses .....                         |  |  | 714,416     | 652,983     |
|                                                                                               |  |  | \$3,034,906 | \$2,433,667 |

| 10. DEPOSITS                     |                   |                      |                         | 1989         | 1988         |
|----------------------------------|-------------------|----------------------|-------------------------|--------------|--------------|
|                                  | Payable on Demand | Payable after Notice | Payable on a Fixed Date | Total        | Total        |
| Domestic*                        |                   |                      |                         |              |              |
| Government of Canada . . . . .   | \$ 164,502        | \$ —                 | \$ —                    | \$ 164,502   | \$ 296,364   |
| Provincial governments . . . . . | 13,596            | 494,197              | 55,067                  | 562,860      | 180,537      |
| Banks . . . . .                  | 590,305           | 18,135               | 290,119                 | 898,559      | 1,022,586    |
| Individuals . . . . .            | 1,532,330         | 27,396,356           | 21,002,142              | 49,930,828   | 42,896,749   |
| Other . . . . .                  | 5,066,681         | 5,046,324            | 4,701,678               | 14,814,683   | 17,288,489   |
|                                  | 7,367,414         | 32,955,012           | 26,049,006              | 66,371,432   | 61,684,725   |
| International*                   |                   |                      |                         |              |              |
| Provincial governments . . . . . | —                 | —                    | 58,910                  | 58,910       | 90,196       |
| Banks . . . . .                  | 89,044            | 8,745                | 9,096,472               | 9,194,261    | 11,590,787   |
| Individuals . . . . .            | 286,130           | 570,662              | 3,063,842               | 3,920,634    | 3,803,967    |
| Other . . . . .                  | 476,926           | 120,069              | 9,044,043               | 9,641,038    | 10,068,605   |
|                                  | 852,100           | 699,476              | 21,263,267              | 22,814,843   | 25,553,555   |
|                                  | \$8,219,514       | \$33,654,488         | \$47,312,273            | \$89,186,275 | \$87,238,280 |

\*Domestic deposits include all deposits booked in Canada, regardless of currency, with the exception of those of the Canadian-based International Money Markets. The deposits of this unit, together with deposits booked outside Canada, comprise International deposits.

## 11. LIABILITIES OF SUBSIDIARIES OTHER THAN DEPOSITS

These liabilities are subordinated in right of payment to claims of the depositors and certain other creditors of the respective subsidiaries.

|                                                                                                                               | 1989               | 1988               |
|-------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| RBC Dominion Securities Limited                                                                                               |                    |                    |
| Secured call loans                                                                                                            | \$ 846,252         | \$ 929,241         |
| Unsecured call loans                                                                                                          | 64,879             | 31,701             |
| RoyLease Limited                                                                                                              |                    |                    |
| Long-term notes payable in various amounts to 1997 and bearing interest at rates from 8 $\frac{3}{8}$ % to 11 $\frac{3}{4}$ % | 164,952            | 197,064            |
| Other subsidiaries                                                                                                            | 37,112             | 43,316             |
|                                                                                                                               | <b>\$1,113,195</b> | <b>\$1,201,322</b> |

## 12. OTHER LIABILITIES

|                                                                             | 1989               | 1988               |
|-----------------------------------------------------------------------------|--------------------|--------------------|
| Accrued interest                                                            | \$1,919,122        | \$1,630,839        |
| Amounts payable to brokers, dealers and clients                             | 798,352            | 1,184,719          |
| Obligations related to securities sold short or under repurchase agreements | 1,288,425          | 808,056            |
| Dividends payable                                                           | 92,966             | 87,518             |
| Obligations under capital leases                                            | 79,907             | 78,819             |
| Other items, including accounts payable and accrued expenses                | 1,200,911          | 1,053,490          |
|                                                                             | <b>\$5,379,683</b> | <b>\$4,843,441</b> |

## 13. BANK DEBENTURES

The debentures are direct unsecured obligations of the Bank and are subordinated in right of payment to the claims of depositors and certain other creditors of the Bank.

In accordance with the formula prescribed in the Bank Act, as at November 1, 1989 the Bank had the capacity to issue an additional \$772,000,000 of debentures.

| Maturity           | Rate               |         | 1989               | 1988               |
|--------------------|--------------------|---------|--------------------|--------------------|
| February 15, 1989  | 10.40%             |         | \$ —               | \$ 75,000          |
| November 15, 1990  |                    | (1)     | 75,000             | 75,000             |
| April 15, 1991     | 7%                 | (2)     | 2,401              | 2,401              |
| July 22, 1991      | 12%                | (3)     | 99,950             | 100,000            |
| February 15, 1992  | 9%                 | (2)     | 27,440             | 29,206             |
| May 15, 1994       | 10%                | (2)     | 29,628             | 31,313             |
| December 1, 1994   | 10%                | (2)     | 5,888              | 5,888              |
| June 1, 1998       | 10.80%             |         | 200,000            | 200,000            |
| September 30, 1998 |                    | (4)     | 117,350            | 122,580            |
| January 15, 1999   | 10.90%             |         | 250,000            | 250,000            |
| October 14, 1999   | 10.20%             |         | 250,000            | —                  |
| May 22, 2000       | 11 $\frac{3}{8}$ % | (2),(5) | 47,967             | 62,056             |
| July 5, 2005       |                    | (6)     | 410,725            | 429,030            |
| October 1, 2083    |                    | (7)     | 250,000            | 250,000            |
| June 6, 2085       |                    | (8)     | 352,050            | 367,740            |
|                    |                    |         | <b>\$2,118,399</b> | <b>\$2,000,214</b> |

- (1) The November 15, 1990 debentures bear interest at a rate of  $\frac{1}{2}$  of 1% below the Bank's Canadian prime rate.
- (2) Subject to sinking fund provisions.
- (3) The July 22, 1991 debentures are convertible at the option of the holder up to and including July 21, 1991 into Common Shares at a conversion price of \$35 per Common Share. These debentures are also convertible at the option of the Bank at a conversion price of \$35 per Common Share if the Common Shares have traded at or in excess of certain weighted average prices.
- (4) The September 30, 1998 debentures are denominated in U.S. dollars and are carried at the Canadian equivalent of U.S. \$100,000,000. These debentures bear interest at a rate of 0.08% above the six-month LIBOR.
- (5) The May 22, 2000 debentures are denominated in U.S. dollars and are carried at the Canadian equivalent of U.S. \$40,875,000.

- (6) The July 5, 2005 debentures are denominated in U.S. dollars and are carried at the Canadian equivalent of U.S. \$350,000,000. These debentures bear interest at a rate of  $\frac{1}{4}$  of 1% above the three-month LIBOR.
- (7) The October 1, 2083 debentures bear interest at a rate of 0.40% above the 30-day Bankers' Acceptance rate reported by the Bank of Canada.
- (8) The June 6, 2085 debentures are denominated in U.S. dollars and are carried at the Canadian equivalent of U.S. \$300,000,000. These debentures bear interest at a rate equal to  $\frac{1}{4}$  of 1% above the three-month LIMEAN. In the event of a reduction of the annual dividend declared by the Bank on its Common Shares, the interest payable on the debentures is reduced pro-rata to the dividend reduction and the interest reduction is payable with the proceeds from the sale of Common Shares.

### Repayment Schedule

The aggregate sinking fund requirements and maturities of the Bank's debentures assuming the earliest possible dates of maturity under the terms of issue are as follows:

|                    |                    |
|--------------------|--------------------|
| Within 1 year      | \$ 7,052           |
| From 1 to 2 years  | 186,335            |
| From 2 to 3 years  | 32,503             |
| From 3 to 5 years  | 38,506             |
| From 5 to 10 years | 841,228            |
| Over 10 years      | 1,012,775          |
|                    | <b>\$2,118,399</b> |



## 14. CAPITAL STOCK

### Authorized Capital Stock

**Preferred** – 50,000,000 First Preferred Shares and 50,000,000 Second Preferred Shares without nominal or par value, issuable in series; the aggregate consideration for which all the First Preferred Shares and all the Second Preferred Shares may be issued shall not exceed \$1,250,000,000 in each case.

**Common** – 250,000,000 shares without nominal or par value provided that the aggregate consideration shall not exceed \$3,000,000,000.

### Outstanding Capital Stock

|                                                               | 1989                                  |                    | 1988                                  |                    |
|---------------------------------------------------------------|---------------------------------------|--------------------|---------------------------------------|--------------------|
|                                                               | Number<br>of Shares<br>(in thousands) | Amount             | Number<br>of Shares<br>(in thousands) | Amount             |
| <b>Preferred</b>                                              |                                       |                    |                                       |                    |
| <b>\$1.88 Cumulative Redeemable</b>                           |                                       |                    |                                       |                    |
| <b>First Preferred Shares Series A (1)</b>                    |                                       |                    |                                       |                    |
| Outstanding at beginning of year                              | 4,627                                 | \$ 115,676         | 4,824                                 | \$ 120,605         |
| Purchased for cancellation                                    | (186)                                 | (4,660)            | (197)                                 | (4,929)            |
| Outstanding at end of year                                    | 4,441                                 | 111,016            | 4,627                                 | 115,676            |
| <b>\$1.45 Cumulative Redeemable</b>                           |                                       |                    |                                       |                    |
| <b>First Preferred Shares Series B (2)</b>                    |                                       |                    |                                       |                    |
| Outstanding at beginning of year                              | 13,600                                | 271,991            | 15,000                                | 300,000            |
| Converted into Common Shares                                  | —                                     | —                  | (1,400)                               | (28,009)           |
| Outstanding at end of year                                    | 13,600                                | 271,991            | 13,600                                | 271,991            |
| <b>Floating Rate Cumulative Redeemable</b>                    |                                       |                    |                                       |                    |
| <b>First Preferred Shares Series C (3)</b>                    |                                       |                    |                                       |                    |
| Outstanding at end of year                                    | 1,000                                 | 100,000            | 1,000                                 | 100,000            |
| <b>U.S.\$ Floating Rate Cumulative Redeemable</b>             |                                       |                    |                                       |                    |
| <b>First Preferred Shares Series D (3)</b>                    |                                       |                    |                                       |                    |
| Outstanding at beginning of year                              | 1,000                                 | 122,580            | 1,000                                 | 131,550            |
| Foreign currency translation adjustment                       | —                                     | (5,230)            | —                                     | (8,970)            |
| Outstanding at end of year                                    | 1,000                                 | 117,350            | 1,000                                 | 122,580            |
| <b>Price Adjusted Floating Rate Cumulative Redeemable</b>     |                                       |                    |                                       |                    |
| <b>First Preferred Shares Series E (4)</b>                    |                                       |                    |                                       |                    |
| Outstanding at end of year                                    | 1,500                                 | 150,000            | 1,500                                 | 150,000            |
| <b>Non-cumulative</b>                                         |                                       |                    |                                       |                    |
| <b>First Preferred Shares Series F (5)</b>                    |                                       |                    |                                       |                    |
| Issued in September 1989 and outstanding at end of year       | 6,000                                 | 150,000            | —                                     | —                  |
| <b>Non-cumulative</b>                                         |                                       |                    |                                       |                    |
| <b>First Preferred Shares Series G (6)</b>                    |                                       |                    |                                       |                    |
| Issued in September 1989 and outstanding at end of year       | 10,000                                | 250,000            | —                                     | —                  |
| <b>\$2.75 Cumulative Redeemable Convertible</b>               |                                       |                    |                                       |                    |
| <b>Second Preferred Shares Series A</b>                       |                                       |                    |                                       |                    |
| Outstanding at beginning of year                              | 7,736                                 | 193,421            | 8,398                                 | 209,963            |
| Converted into Common Shares                                  | (7,491)                               | (187,277)          | (662)                                 | (16,542)           |
| Redeemed                                                      | (118)                                 | (2,946)            | —                                     | —                  |
| Retracted                                                     | (127)                                 | (3,198)            | —                                     | —                  |
| Outstanding at end of year                                    | —                                     | —                  | 7,736                                 | 193,421            |
| <b>Total Outstanding Preferred Stock</b>                      |                                       | <b>1,150,357</b>   |                                       | <b>953,668</b>     |
| <b>Common</b>                                                 |                                       |                    |                                       |                    |
| Outstanding at beginning of year                              | 132,650                               | 1,961,590          | 118,005                               | 1,545,090          |
| Issued under the Shareholder Dividend and Share Purchase Plan | 3,195                                 | 122,864            | 4,155                                 | 112,336            |
| Issued on conversion of First Preferred Shares Series B       | —                                     | —                  | 700                                   | 28,009             |
| Issued on conversion of Second Preferred Shares Series A      | 7,491                                 | 224,732            | 662                                   | 19,850             |
| Issued on conversion of July 22, 1991 Debentures              | 1                                     | 50                 | —                                     | —                  |
| Issued on acquisition of subsidiary                           | —                                     | —                  | 9,128                                 | 256,305            |
| <b>Total Outstanding Common Stock</b>                         | <b>143,337</b>                        | <b>2,309,236</b>   | <b>132,650</b>                        | <b>1,961,590</b>   |
| <b>Total Outstanding Capital Stock</b>                        |                                       | <b>\$3,459,593</b> |                                       | <b>\$2,915,258</b> |

- (1) The Bank has undertaken to purchase in each calendar quarter 48,000 of the First Preferred Shares Series A, if available, at prices not exceeding \$25 per share.
- (2) The Bank has the option to redeem the First Preferred Shares Series B at \$20.80 per share until June 9, 1990 reducing by \$0.20 per year until June 9, 1993 and thereafter at \$20. The Bank may at any time purchase for cancellation First Preferred Shares Series B at a price per share not exceeding the then applicable above-mentioned redemption price. Such redemption and purchase for cancellation options are subject to the consent of the Superintendent of Financial Institutions.
- (3) The dividends on the First Preferred Shares Series C and D are determined quarterly by applying to Cdn.\$100 and U.S.\$100 respectively, the greater of (i) 6.67% per annum and (ii)  $\frac{3}{4}$  of the Bank's average Canadian and U.S. prime rates respectively for stated periods. The First Preferred Shares Series C and D are redeemable by the Bank at a price per share of Cdn.\$100 and U.S.\$100 respectively. The Bank may at any time purchase for cancellation First Preferred Shares Series C and D at a price per share not exceeding Cdn.\$100 and U.S.\$100 respectively. Such redemption and purchase for cancellation options are subject to the consent of the Superintendent of Financial Institutions.
- (4) The dividend on the First Preferred Shares Series E is determined monthly and (i) floats in relation to changes in the Bank's Canadian prime rate and (ii) is adjusted upwards or downwards based on changes in market trading value. The annual dividend rate applicable to any month will in no event be less than 55% or greater than 75% of the average prime rate. The First Preferred Shares Series E are not redeemable by the Bank prior to April 30, 1991 but thereafter are redeemable at a price per share of \$100. The Bank may at any time purchase for cancellation First Preferred Shares Series E at a price per share not exceeding \$100. Such redemption and purchase for cancellation options are subject to the consent of the Superintendent of Financial Institutions.
- (5) The dividend on the First Preferred Shares Series F is determined quarterly at a rate equal to the greater of (i) \$0.5625 per share and (ii) 40.761% of the dividend per Common Share for the same quarter. The First Preferred Shares Series F are not redeemable by the Bank prior to October 31, 1999 but thereafter are redeemable (i) in cash, at a price per share of \$25 or (ii) by the conversion of each First Preferred Share Series F to be redeemed into that number of Common Shares determined by dividing \$25 by 95% of the prevailing market price of the Common Shares at that time. Such redemption options are subject to the consent of the Superintendent of Financial Institutions.
- (6) The dividend on the First Preferred Shares Series G is payable quarterly at a rate of \$0.53125 per share until October 31, 1999 and thereafter is determined quarterly at a rate equal to the greater of (i) \$0.53125 per share and (ii) 40.761% of the dividend per Common Share for the same quarter. The First Preferred Shares Series G are not redeemable by the Bank prior to October 31, 1999 but thereafter are redeemable (i) in cash, at a price per share of \$25 or (ii) by the conversion of each First Preferred Share Series G to be redeemed into that number of Common Shares determined by dividing \$25 by 95% of the prevailing market price of the Common Shares at that time. On and after October 31, 2000, subject to the right of the Bank to redeem or to find substitute purchasers, each First Preferred Share Series G will be convertible at the option of the holder into that number of Common Shares determined by dividing \$25 by 95% of the prevailing market price of the Common Shares at that time. Such redemption options are subject to the consent of the Superintendent of Financial Institutions.

**As at October 31, 1989, Common Shares were reserved for possible issuance as follows:**

|                                                          | Number of shares<br>(in thousands) |
|----------------------------------------------------------|------------------------------------|
| - Under the Shareholder Dividend and Share Purchase Plan | 3,575                              |
| - Upon conversion of the July 22, 1991 Debentures        | 2,856                              |
|                                                          | <b>6,431</b>                       |

| Dividends Declared | 1989             | 1988      |
|--------------------|------------------|-----------|
| <b>Preferred</b>   |                  |           |
| First Preferred    |                  |           |
| Series A           | \$ 8,508         | \$ 8,870  |
| Series B           | 19,720           | 20,736    |
| Series C           | 8,573            | 6,887     |
| Series D           | 8,498            | 8,251     |
| Series E           | 14,630           | 11,613    |
| Series F           | 1,812            | —         |
| Series G           | 2,853            | —         |
| Second Preferred   |                  |           |
| Series A           | 30               | 23,008    |
|                    | <b>64,624</b>    | 79,365    |
| <b>Common</b>      | <b>312,938</b>   | 266,278   |
|                    | <b>\$377,562</b> | \$345,643 |



**15. PENSION PLAN****1989****1988**

The funding excess of the Bank's principal pension plans as at January 1, 1989 and 1988 is determined as follows:

|                                                                      |                    |             |
|----------------------------------------------------------------------|--------------------|-------------|
| Pension fund assets, at adjusted market values .....                 | <b>\$1,544,393</b> | \$1,468,956 |
| Actuarially computed present value of accrued pension benefits. .... | <b>1,305,599</b>   | 1,217,299   |
| Funding excess                                                       | <b>\$ 238,794</b>  | \$ 251,657  |

*Pension expense included in the Statement of Income for the year ended October 31, 1989 was \$11,371,000 (1988 – \$3,228,000).*

**16. COMMITMENTS AND CONTINGENT LIABILITIES**

In the normal course of business the Bank undertakes various commitments and has contingent liabilities which are not reflected in the financial statements. Management does not anticipate any material losses to result from these transactions.

The commitments and contingent liabilities reported below reflect various degrees and types of risks, including credit, interest rate, foreign exchange rate and liquidity risk. The amounts reported represent financial commitments to perform, but do not necessarily reflect the economic risks associated with the commitments.

Many commitments to extend credit do not ultimately involve any outlay of funds to customers and therefore have neither liquidity nor credit risk. Foreign exchange and interest rate contracts, since they generally consist of offsetting commitments, involve limited foreign exchange and interest rate risk to the Bank.

Credit risk is the exposure to loss in the event of non-performance by the other party to a transaction, and is a function of the ability of the counterparty to honour its obligations to the Bank. For all types of foreign exchange and interest rate contracts, only exposures created by movements unfavourable to a customer's foreign exchange or interest rate position create a potential for credit risk. Hence, generally, only half of the contract amounts outstanding will be a source of any credit risk at a particular point in time, and then only for an amount equal to changes in foreign exchange or interest rates. The Bank controls all credit risks through credit approvals, limits and monitoring procedures.

Certain foreign exchange and interest rate contracts are entered into by the Bank to reduce the exposure of certain assets and liabilities on the balance sheet to foreign exchange or interest rate risk.

**1989****1988****Credit Instruments**

|                                                                  |                     |              |
|------------------------------------------------------------------|---------------------|--------------|
| Guarantees and standby letters of credit .....                   | <b>\$ 6,278,430</b> | \$ 5,952,881 |
| Documentary and commercial letters of credit .....               | <b>1,004,740</b>    | 1,285,026    |
| Commitments to extend credit (1) .....                           | <b>69,755,330</b>   | 54,233,624   |
| Note issuance facilities/Revolving underwriting facilities ..... | <b>736,358</b>      | 832,471      |

**Foreign Exchange and Interest Rate Contracts**

|                                                  |                    |             |
|--------------------------------------------------|--------------------|-------------|
| Foreign exchange contracts (2) .....             | <b>179,840,769</b> | 149,295,900 |
| Foreign currency and interest rate futures ..... | <b>7,511,497</b>   | 4,289,943   |
| Future rate agreements .....                     | <b>32,921,579</b>  | 17,817,664  |
| Currency and interest rate swaps .....           | <b>79,122,470</b>  | 51,800,890  |
| Foreign currency and interest rate options ..... | <b>11,432,901</b>  | 3,257,083   |

(1) Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, bankers' acceptances, guarantees or letters of credit.

(2) Foreign exchange contracts represent commitments to purchase foreign currency and Canadian dollars, including undelivered spot transactions.

(3) The above amounts, except for those relating to guarantees and letters of credit, are as at September 30.

**Lease Commitments**

Minimum future rental commitments for buildings under long-term non-cancellable leases for the next five years are:

|            |                 |
|------------|-----------------|
| 1990 ..... | <b>\$88,769</b> |
| 1991 ..... | <b>80,393</b>   |
| 1992 ..... | <b>71,241</b>   |
| 1993 ..... | <b>59,426</b>   |
| 1994 ..... | <b>53,033</b>   |

Annual rental commitments after 1994 are in decreasing amounts.

**Litigation**

Various legal proceedings are pending which challenge certain practices or actions of the Bank and its subsidiaries. Many of these proceedings are loan-related and are in reaction to steps taken by the Bank and its subsidiaries to collect delinquent loans and enforce rights in collateral securing such loans. Management considers that the aggregate liability resulting from these proceedings will not be material.

## 17. DOMESTIC AND INTERNATIONAL OPERATIONS

The Bank considers its Domestic Operations to include all business transacted in Canada, regardless of currency, with the exception of the Canadian-based activities of International Money Markets. This unit's activities, together with the Bank's business carried on outside Canada, comprise International Operations.

While it is not practicable to make a definitive division of its Domestic and International Operations, appropriate allocations are made for (a) the cost of funds related to liquidity and capital computed on the basis of marginal costs of funds and (b) corporate non-interest expenses.

|                                                           | Domestic     |              | International |              | Total         |               |
|-----------------------------------------------------------|--------------|--------------|---------------|--------------|---------------|---------------|
|                                                           | 1989         | 1988         | 1989          | 1988         | 1989          | 1988          |
| Net interest income – taxable equivalent basis . . . . .  | \$3,080,142  | \$2,736,287  | \$ 636,317    | \$624,769    | \$3,716,459   | \$3,361,056   |
| Deduct: Taxable equivalent adjustment* . . . . .          | 73,171       | 58,063       | 18,608        | 22,588       | 91,779        | 80,651        |
| Net interest income – financial statement basis . . . . . | 3,006,971    | 2,678,224    | 617,709       | 602,181      | 3,624,680     | 3,280,405     |
| Provision for loan losses . . . . .                       | 285,000      | 320,000      | 1,095,000     | 430,000      | 1,380,000     | 750,000       |
|                                                           | 2,721,971    | 2,358,224    | (477,291)     | 172,181      | 2,244,680     | 2,530,405     |
| Other income . . . . .                                    | 1,216,356    | 941,159      | 321,435       | 329,143      | 1,537,791     | 1,270,302     |
|                                                           | 3,938,327    | 3,299,383    | (155,856)     | 501,324      | 3,782,471     | 3,800,707     |
| Non-interest expenses . . . . .                           | 2,472,293    | 2,054,046    | 462,578       | 495,652      | 2,934,871     | 2,549,698     |
|                                                           | 1,466,034    | 1,245,337    | (618,434)     | 5,672        | 847,600       | 1,251,009     |
| Income taxes . . . . .                                    | 591,000      | 539,000      | (286,000)     | (9,000)      | 305,000       | 530,000       |
|                                                           | 875,034      | 706,337      | (332,434)     | 14,672       | 542,600       | 721,009       |
| Minority interest in net income of subsidiaries . . . . . | 10,505       | 4,824        | 3,022         | 3,867        | 13,527        | 8,691         |
| Net income (loss)                                         | \$ 864,529   | \$ 701,513   | \$ (335,456)  | \$ 10,805    | \$ 529,073    | \$ 712,318    |
| Average total assets                                      | \$88,000,000 | \$76,500,000 | \$24,700,000  | \$27,800,000 | \$112,700,000 | \$104,300,000 |

\*The taxable equivalent adjustment represents a credit to interest income in order to gross up the tax-exempt income earned on certain securities (primarily small business bonds, income debentures and term preferred shares) to an amount which, had it been taxable at a rate of 41.8% in 1989 and 46.6% in 1988, would result in the same after-tax net income as appears in the financial statements. The gross up of such income to a taxable equivalent basis permits a uniform measurement and comparison of net interest income.



**CORPORATIONS IN WHICH THE BANK  
OWNS MORE THAN 10% OF THE VOTING SHARES**

| <i>Name</i>                                       | <i>Principal Office Address</i> | <i>Carrying Value of Voting Shares owned by the Bank*</i> | <i>Percent of Voting Shares owned by the Bank</i> |
|---------------------------------------------------|---------------------------------|-----------------------------------------------------------|---------------------------------------------------|
| RBC Dominion Securities Limited                   | Toronto, Canada                 | <b>\$ 426,839</b>                                         | 68%                                               |
| RBC Dominion Securities Inc.                      | Toronto, Canada                 |                                                           | 68                                                |
| RBC Dominion Securities (Alberta) Inc.            | Calgary, Canada                 |                                                           | 68                                                |
| RBC Dominion Securities Corporation               | New York, U.S.A.                |                                                           | 68                                                |
| RBC Dominion Securities Barbados Limited          | Bridgetown, Barbados            |                                                           | 68                                                |
| RBC Dominion Securities (London) Limited          | London, England                 |                                                           | 68                                                |
| RBC Dominion Securities International Limited     | London, England                 |                                                           | 68                                                |
| RBC Dominion Securities Finance S.A.              | Lausanne, Switzerland           |                                                           | 68                                                |
| RBC Dominion Securities Pacific Inc.              | Toronto, Canada                 |                                                           | 68                                                |
| RBC Dominion Securities (Asia) Limited            | Hong Kong                       |                                                           | 68                                                |
| Royal Bank Mortgage Corporation                   | Montreal, Canada                | <b>1,066,405</b>                                          | 100                                               |
| RoyLease Limited                                  | Toronto, Canada                 | <b>393,366</b>                                            | 100                                               |
| Royal Bank Realty Inc.                            | Montreal, Canada                | <b>1,038</b>                                              | 100                                               |
| Globe Realty Management Limited                   | Toronto, Canada                 |                                                           | 100                                               |
| Royal Bank Export Finance Co. Ltd.                | Toronto, Canada                 | <b>4,262</b>                                              | 100                                               |
| Royal Bank Capital Corporation                    | Toronto, Canada                 | <b>9,105</b>                                              | 100                                               |
| UB&S Holdings Limited                             | Toronto, Canada                 | <b>7,039</b>                                              | 100                                               |
| Royal Bank Investment Management Inc.             | Toronto, Canada                 |                                                           | 85                                                |
| Royfund Distributors Ltd.                         | Toronto, Canada                 |                                                           | 85                                                |
| Royal Bank Mutual Fund Services Inc.              | Montreal, Canada                | <b>50</b>                                                 | 100                                               |
| Chargex Ltd.                                      | Montreal, Canada                | <b>—</b>                                                  | 25                                                |
| RBC Holdings (USA) Inc.                           | New York, U.S.A.                | <b>186,963</b>                                            | 100                                               |
| RBC Properties (New York) Inc.                    | New York, U.S.A.                |                                                           | 100                                               |
| RBC Holdings (Delaware) Inc.                      | Wilmington, U.S.A.              |                                                           | 100                                               |
| RBC Systems (USA) Inc.                            | Jersey City, U.S.A.             |                                                           | 100                                               |
| Royal Bank de Puerto Rico                         | San Juan, Puerto Rico           | <b>47,813</b>                                             | 100                                               |
| Banco Royal do Canada (Brasil) S.A.               | São Paulo, Brazil               | <b>20,575</b>                                             | 100                                               |
| The Royal Bank of Canada Representacoes S/C Ltda. | São Paulo, Brazil               | <b>2</b>                                                  | 100                                               |
| R.B.C. Holdings (Bahamas) Limited                 | Nassau, Bahamas                 | <b>796,143</b>                                            | 100                                               |
| The Royal Bank of Canada (Bahamas) Limited        | Nassau, Bahamas                 |                                                           | 100                                               |
| R.B.C. Investments Limited                        | Nassau, Bahamas                 |                                                           | 100                                               |
| Finance Corporation of Bahamas Limited            | Nassau, Bahamas                 |                                                           | 75                                                |
| The Royal Bank of Canada (Barbados) Limited       | Bridgetown, Barbados            |                                                           | 100                                               |
| Royal Bank of Canada Insurance Company Ltd.       | Bridgetown, Barbados            |                                                           | 100                                               |
| Royal Bank (Barbados) Financial Corporation       | Bridgetown, Barbados            | <b>887</b>                                                | 100                                               |

\*The carrying value (in thousands of dollars) of voting shares owned 20% or more by the Bank is stated at the Bank's equity in such investments.

| <b>Name</b>                                                       | <b>Principal Office Address</b> | <b>Carrying Value of Voting Shares owned by the Bank*</b> | <b>Percent of Voting Shares owned by the Bank</b> |
|-------------------------------------------------------------------|---------------------------------|-----------------------------------------------------------|---------------------------------------------------|
| RBC Finance B.V.                                                  | Amsterdam, Netherlands          | <b>\$461,942</b>                                          | 100%                                              |
| The Royal Bank of Canada S.A.                                     | Paris, France                   |                                                           | 100                                               |
| The Royal Bank of Canada (Suisse)                                 | Geneva, Switzerland             |                                                           | 100                                               |
| The Royal Bank of Canada A.G.                                     | Frankfurt, Germany              |                                                           | 100                                               |
| RBC Holdings (Guernsey) Limited                                   | Guernsey, Channel Islands       |                                                           | 100                                               |
| The Royal Bank of Canada (Channel Islands) Limited                | Guernsey, Channel Islands       |                                                           | 100                                               |
| The Royal Bank of Canada Investment Management (Guernsey) Limited | Guernsey, Channel Islands       |                                                           | 100                                               |
| RBC Offshore Fund Managers Limited                                | Guernsey, Channel Islands       |                                                           | 100                                               |
| The Royal Bank of Canada Trust Company (Asia) Limited             | Hong Kong                       |                                                           | 100                                               |
| RBC Holdings (Isle of Man) Limited                                | Ballasalla, Isle of Man         |                                                           | 100                                               |
| The Royal Bank of Canada (Isle of Man) Limited                    | Ballasalla, Isle of Man         |                                                           | 100                                               |
| RBC Mannin Investment Managers Limited                            | Ballasalla, Isle of Man         |                                                           | 100                                               |
| RBC Mannin Trustee Company Limited                                | Ballasalla, Isle of Man         |                                                           | 100                                               |
| RBC Mannin Limited                                                | London, England                 |                                                           | 100                                               |
| The Royal Bank of Canada (Cayman) Limited                         | George Town, Grand Cayman       |                                                           | 100                                               |
| RoyCan Trust Company, S.A.                                        | Geneva, Switzerland             |                                                           | 100                                               |
| The Royal Bank of Canada Holdings (U.K.) Limited                  | London, England                 |                                                           | 100                                               |
| Chancellor Investments Limited                                    | London, England                 |                                                           | 100                                               |
| Royal Bank of Canada Europe Limited                               | London, England                 |                                                           | 100                                               |
| Orion Leasing Holdings Limited                                    | London, England                 |                                                           | 100                                               |
| Orion Finance Limited                                             | London, England                 |                                                           | 100                                               |
| The Royal Bank of Canada Trade Finance Limited                    | London, England                 |                                                           | 100                                               |
| RBC Properties (London) Limited                                   | London, England                 |                                                           | 100                                               |
| RBC Properties (Stamford Street) Limited                          | London, England                 |                                                           | 100                                               |
| Profitmore Limited                                                | London, England                 |                                                           | 100                                               |
| AST Trans-Act Limited                                             | London, England                 |                                                           | 75                                                |
| Libra Bank plc                                                    | London, England                 |                                                           | 11                                                |
| Multinational Orion Leasing Holdings B.V.                         | Amsterdam, Netherlands          | <b>539</b>                                                | 100                                               |
| Orion Leasing Singapore Pte. Limited                              | Singapore                       |                                                           | 100                                               |
| The Royal Bank of Canada (Asia) Limited                           | Singapore                       | <b>150,989</b>                                            | 100                                               |
| RBC Australia Holdings Limited                                    | Sydney, Australia               | <b>133,971</b>                                            | 100                                               |
| National Mutual Royal Bank Limited                                | Melbourne, Australia            |                                                           | 50                                                |
| RBC Australia Finance Limited                                     | Sydney, Australia               |                                                           | 50                                                |
| RoyAust Management Limited                                        | Sydney, Australia               |                                                           | 50                                                |
| Capel Court Corporation Limited                                   | Melbourne, Australia            |                                                           | 50                                                |
| National Mutual Royal Savings Bank Limited                        | Melbourne, Australia            |                                                           | 50                                                |

\*The carrying value (in thousands of dollars) of voting shares owned 20% or more by the Bank is stated at the Bank's equity in such investments.



# CONDENSED FINANCIAL STATEMENTS OF WHOLLY-OWNED MORTGAGE, LEASING AND VENTURE CAPITAL SUBSIDIARIES

## Statement of Assets and Liabilities

(in thousands of dollars)

October 31, 1989    October 31, 1988

### Royal Bank Mortgage Corporation

#### Assets

|                                    |                     |                     |
|------------------------------------|---------------------|---------------------|
| Mortgage loans . . . . .           | \$20,267,982        | \$16,602,065        |
| Personal loans . . . . .           | 935,581             | 1,066,182           |
| Commercial loans . . . . .         | 939,731             | 706,030             |
| Other investments . . . . .        | 3,500,148           | 2,097,259           |
| The Royal Bank of Canada . . . . . | 470,673             | 90,899              |
|                                    | <b>\$26,114,115</b> | <b>\$20,562,435</b> |

#### Liabilities

|                                                  |                     |                     |
|--------------------------------------------------|---------------------|---------------------|
| Accrued interest and other liabilities . . . . . | \$ 543,326          | \$ 460,069          |
| Notice deposits . . . . .                        | 13,139,928          | 9,668,025           |
| Short-term promissory notes . . . . .            | 967,560             | 1,319,592           |
| Investment certificates                          |                     |                     |
| Due within one year . . . . .                    | 6,509,700           | 4,864,780           |
| Due beyond one year . . . . .                    | 3,829,288           | 3,443,330           |
| Deferred income taxes . . . . .                  | 49,908              | 55,919              |
| Preferred and common stock . . . . .             | 86,665              | 74,346              |
| Contributed surplus . . . . .                    | 584,705             | 438,454             |
| Retained earnings . . . . .                      | 403,035             | 237,920             |
|                                                  | <b>\$26,114,115</b> | <b>\$20,562,435</b> |

## Statement of Income

(in thousands of dollars)

Year Ended  
October 31, 1989    Year Ended  
October 31, 1988

#### Income

|                                         |                  |                  |
|-----------------------------------------|------------------|------------------|
| Interest on mortgage loans . . . . .    | \$2,117,665      | \$1,545,092      |
| Interest on personal loans . . . . .    | 140,808          | 132,246          |
| Interest on commercial loans . . . . .  | 113,762          | 75,914           |
| Interest on other investments . . . . . | 317,619          | 143,854          |
|                                         | <b>2,689,854</b> | <b>1,897,106</b> |

#### Expenses

|                                                   |                  |                  |
|---------------------------------------------------|------------------|------------------|
| Interest – The Royal Bank of Canada . . . . .     | 16,543           | 49,551           |
| Interest on notice deposits . . . . .             | 1,072,099        | 575,633          |
| Interest on short-term promissory notes . . . . . | 120,670          | 92,305           |
| Interest on investment certificates . . . . .     | 995,541          | 716,534          |
| Operating expenses . . . . .                      | 263,045          | 205,570          |
|                                                   | <b>2,467,898</b> | <b>1,639,593</b> |

|                                                 |                |                |
|-------------------------------------------------|----------------|----------------|
| <b>Net Income Before Income Taxes . . . . .</b> | <b>221,956</b> | <b>257,513</b> |
| Income taxes . . . . .                          | 56,081         | 100,785        |

|                             |                   |                   |
|-----------------------------|-------------------|-------------------|
| <b>Net Income . . . . .</b> | <b>\$ 165,875</b> | <b>\$ 156,728</b> |
|-----------------------------|-------------------|-------------------|

### RoyLease Limited

#### Assets

|                                             |                  |                  |
|---------------------------------------------|------------------|------------------|
| Receivable under lease agreements . . . . . | \$915,906        | \$850,904        |
| Other . . . . .                             | 3,392            | 3,964            |
|                                             | <b>\$919,298</b> | <b>\$854,868</b> |

#### Liabilities

|                                                  |                  |                  |
|--------------------------------------------------|------------------|------------------|
| Accrued interest and other liabilities . . . . . | \$ 27,482        | \$ 39,117        |
| Short-term promissory notes . . . . .            | 113,700          | 137,100          |
| Long-term debt                                   |                  |                  |
| The Royal Bank of Canada . . . . .               | 96,987           | 308,497          |
| Other . . . . .                                  | 168,103          | 200,015          |
| Deferred income taxes . . . . .                  | 119,660          | 100,206          |
| Common stock . . . . .                           | 321,975          | 21,975           |
| Retained earnings . . . . .                      | 71,391           | 47,958           |
|                                                  | <b>\$919,298</b> | <b>\$854,868</b> |

#### Income

|                  |                  |                 |
|------------------|------------------|-----------------|
| Leases . . . . . | <b>\$103,424</b> | <b>\$91,379</b> |
|------------------|------------------|-----------------|

#### Expenses

|                                                   |               |               |
|---------------------------------------------------|---------------|---------------|
| Interest on short-term promissory notes . . . . . | 16,565        | 11,445        |
| Interest on long-term debt                        |               |               |
| The Royal Bank of Canada . . . . .                | 18,676        | 20,254        |
| Other . . . . .                                   | 18,817        | 27,812        |
| Operating expenses . . . . .                      | 7,747         | 4,042         |
|                                                   | <b>61,805</b> | <b>63,553</b> |

|                                                 |               |               |
|-------------------------------------------------|---------------|---------------|
| <b>Net Income Before Income Taxes . . . . .</b> | <b>41,619</b> | <b>27,826</b> |
| Income taxes . . . . .                          | 17,935        | 13,000        |

|                             |                  |                 |
|-----------------------------|------------------|-----------------|
| <b>Net Income . . . . .</b> | <b>\$ 23,684</b> | <b>\$14,826</b> |
|-----------------------------|------------------|-----------------|

### Royal Bank Capital Corporation

#### Assets

|                                        |                 |                 |
|----------------------------------------|-----------------|-----------------|
| Cash and short-term deposits . . . . . | \$ 3            | \$ 57           |
| Investments . . . . .                  | 26,630          | 13,461          |
| Other assets . . . . .                 | 420             | 145             |
|                                        | <b>\$27,053</b> | <b>\$13,663</b> |

#### Liabilities

|                                                  |                 |                 |
|--------------------------------------------------|-----------------|-----------------|
| Accrued interest and other liabilities . . . . . | \$ 97           | \$ 498          |
| The Royal Bank of Canada . . . . .               | 17,851          | 7,507           |
| Common stock . . . . .                           | 10,000          | 5,342           |
| Retained earnings (Deficit) . . . . .            | (895)           | 316             |
|                                                  | <b>\$27,053</b> | <b>\$13,663</b> |

#### Income

|                                  |              |            |
|----------------------------------|--------------|------------|
| Interest and dividends . . . . . | \$ 1,168     | \$ 477     |
| Fees and commissions . . . . .   | 1,354        | 898        |
| Loss on investments . . . . .    | (1,200)      | (881)      |
|                                  | <b>1,322</b> | <b>494</b> |

#### Expenses

|                                               |              |              |
|-----------------------------------------------|--------------|--------------|
| Interest – The Royal Bank of Canada . . . . . | 1,506        | 534          |
| Operating expenses . . . . .                  | 1,257        | 924          |
|                                               | <b>2,763</b> | <b>1,458</b> |

|                                               |                |              |
|-----------------------------------------------|----------------|--------------|
| <b>Net Loss Before Income Taxes . . . . .</b> | <b>(1,441)</b> | <b>(964)</b> |
| Income taxes . . . . .                        | (230)          | 230          |

|                           |                   |                  |
|---------------------------|-------------------|------------------|
| <b>Net Loss . . . . .</b> | <b>\$ (1,211)</b> | <b>\$(1,194)</b> |
|---------------------------|-------------------|------------------|

# DIRECTORS

as of October 31, 1989

|                                                                                                                                |                                                                                                                                      |                                                                                                                                                                  |                                                                                                           |                                                                                                          |                                                                                                                                        |
|--------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| <b>Allan R. Taylor</b><br>Toronto<br>Chairman and Chief<br>Executive Officer<br>The Royal Bank<br>of Canada                    | <b>A.H. Michell</b><br>Montreal<br>Vice-Chairman<br>The Royal Bank<br>of Canada                                                      | <b>John E. Cleghorn</b><br>Montreal<br>President<br>The Royal Bank<br>of Canada                                                                                  | <b>Ian A. Barclay</b><br>Vancouver<br>Associate<br>McQuaid & Associates<br>Consulting Ltd.                | <b>G.H. Blumenauer</b><br>Oakville<br>Chairman<br>of the Board<br>Otis Canada, Inc.                      | <b>Robert W. Campbell</b><br>Calgary<br>Retired Chairman<br>Canadian Pacific<br>Limited                                                |
| <b>Robert M. Chipman</b><br>Winnipeg<br>Chairman<br>The<br>Megill-Stephenson<br>Company Limited                                | <b>Ronald L. Cliff,<br/>C.M., C.A.</b><br>Vancouver<br>Chairman<br>B.C. Gas Inc.                                                     | <b>George A. Cohon,<br/>C.M., B.Sc., J.D.</b><br>Toronto<br>Chairman, President<br>and Chief Executive<br>Officer<br>McDonald's Restaurants<br>of Canada Limited | <b>Frank B. Common,<br/>Jr., Q.C.</b><br>Montreal<br>Counsel<br>Ogilvy Renault                            | <b>Camille A. Dagenais,<br/>C.C., LL.D.</b><br>Montreal<br>Director<br>The SNC Group                     | <b>Jean-Claude<br/>Delorme, O.C., Q.C.,<br/>O.N.Q.</b><br>Montreal<br>President and Chief<br>Executive Officer<br>Telelobe Canada Inc. |
| <b>Mitzi S. Dobrin, C.M.</b><br>Westmount<br>Chairman and Chief<br>Executive Officer<br>DBRN Holdings Ltd.                     | <b>G. Campbell Eaton,<br/>O.C., M.C., C.D.,<br/>LL.D.</b><br>St. John's, Nfld.<br>President<br>Dublin Ltd.                           | <b>John R. Evans,<br/>C.C., M.D.</b><br>Mississauga<br>Chairman<br>Allelix Inc.                                                                                  | <b>Jock K. Finlayson</b><br>Montreal<br>Chairman<br>Royal Insurance<br>Company of Canada                  | <b>Rowland C. Frazee,<br/>O.C.</b><br>Montreal<br>Retired Chairman<br>The Royal Bank of<br>Canada        | <b>Arden R. Haynes</b><br>Toronto<br>Chairman and Chief<br>Executive Officer<br>Imperial Oil Limited                                   |
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\*Retires January 11, 1990



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## EXECUTIVE OFFICERS

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